



# **Financial Statements**

## **Lesley University**

**June 30, 2013 and 2012**



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

# LESLEY UNIVERSITY

## *Financial Statements*

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### *Independent Auditors' Report*

The Board of Trustees  
Lesley University  
Cambridge, Massachusetts

We have audited the accompanying financial statements of Lesley University (the "University"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lesley University as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Mayer Hoffman McCann P.C.*

September 25, 2013  
Boston, Massachusetts

**LESLEY UNIVERSITY**  
**Statements of Financial Position**

	<i>June 30,</i>	
<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 6,160,887	\$ 6,939,472
Students' accounts receivable, net	4,567,451	5,033,316
Accounts, grants and interest receivable	1,376,236	4,237,104
Prepaid expenses and other assets	2,799,521	2,626,231
Debt service reserve with trustee	6,479,282	6,551,721
Contributions receivable, net	11,486,271	3,596,933
Student loans receivable, net	1,403,675	1,478,346
Trust escrow receivable	175,905	175,883
Bond issuance costs, net	2,357,585	2,359,343
Property and equipment, net	148,704,733	148,571,761
Investments and trusts, at fair value	170,920,286	157,004,566
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 356,431,832</b>	<b>\$ 338,574,676</b>
	<hr/>	<hr/>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 9,185,474	\$ 7,352,714
Deferred revenue and advance payments	12,291,598	14,758,599
Annuities payable	3,618,142	3,662,266
Capital lease obligation	433,928	687,592
Bonds payable, net	90,575,473	92,356,629
U.S. government loan advances	1,368,893	1,356,749
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>117,473,508</b>	<b>120,174,549</b>
	<hr/>	<hr/>
Commitments and contingencies		
Net assets:		
Unrestricted:		
General and other purposes	144,967,374	133,980,575
Board-designated construction fund	4,000,000	3,000,000
Net investment in plant	57,695,332	55,527,539
	<hr/>	<hr/>
	206,662,706	192,508,114
Temporarily restricted	19,588,862	14,600,664
Permanently restricted	12,706,756	11,291,349
	<hr/>	<hr/>
<b>Total net assets</b>	<b>238,958,324</b>	<b>218,400,127</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 356,431,832</b>	<b>\$ 338,574,676</b>
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See accompanying notes to the financial statements.

# LESLEY UNIVERSITY

## *Statements of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets*

	<i>Years Ended June 30,</i>	
	<b>2013</b>	<b>2012</b>
Operating revenues:		
Tuition and fees	\$ 96,081,137	\$ 96,509,998
Discount: Institutional financial aid	<u>(18,102,745)</u>	<u>(16,897,778)</u>
Tuition and fees, net	77,978,392	79,612,220
Government grants and contracts	2,925,974	2,924,771
Auxiliary enterprises	17,200,978	17,144,383
Contributions	493,993	601,834
Other investment income	16,078	7,424
Other income	843,114	988,485
Amounts reclassified under spending formula	6,700,000	6,700,000
Amounts reclassified under board designations	1,014,382	766,000
Net assets released from restrictions	<u>2,317,118</u>	<u>1,818,926</u>
<b>Total operating revenues</b>	<b><u>109,490,029</u></b>	<b><u>110,564,043</u></b>
Operating expenses:		
Instruction	39,231,782	39,377,060
Academic support	13,437,699	13,026,121
Student services	20,106,889	20,762,617
General institutional	17,979,241	16,764,747
Student aid	397,693	397,393
Research	510,068	546,041
Auxiliary enterprises	<u>14,106,300</u>	<u>13,632,922</u>
<b>Total operating expenses</b>	<b><u>105,769,672</u></b>	<b><u>104,506,901</u></b>
<b>Increase in unrestricted net assets from operating activities</b>	<b><u>3,720,357</u></b>	<b><u>6,057,142</u></b>
Nonoperating activities:		
Investment income on board-designated funds, net of fees	1,221,610	1,428,060
Net realized and unrealized gains (losses) on investments	13,831,187	(3,591,821)
Transfer related to underwater endowment investment	405,426	(211,623)
Net assets released from restrictions (plant)	4,412,657	95,659
Fundraising expenses	(1,722,682)	(1,408,143)
Amounts reclassified under spending formula	(6,700,000)	(6,700,000)
Amounts reclassified under board designations	(1,014,382)	(766,000)
Investment income on trust escrow receivable	<u>419</u>	<u>21,666</u>
<b>Increase (decrease) in unrestricted net assets from nonoperating activities</b>	<b><u>10,434,235</u></b>	<b><u>(11,132,202)</u></b>
<b>Increase (decrease) in unrestricted net assets</b>	<b><u>\$ 14,154,592</u></b>	<b><u>\$ (5,075,060)</u></b>

# LESLEY UNIVERSITY

## Statements of Changes in Net Assets

	<i>Years Ended June 30,</i>	
	<b>2013</b>	<b>2012</b>
<b>Changes in unrestricted net assets:</b>		
Operating revenues	\$ 109,490,029	\$ 110,564,043
Operating expenses	<u>(105,769,672)</u>	<u>(104,506,901)</u>
Increase in unrestricted net assets from operating activities	3,720,357	6,057,142
Increase (decrease) in unrestricted net assets from nonoperating activities	<u>10,434,235</u>	<u>(11,132,202)</u>
<b>Increase (decrease) in unrestricted net assets</b>	<b><u>14,154,592</u></b>	<b><u>(5,075,060)</u></b>
<b>Changes in temporarily restricted net assets:</b>		
Private grants and contracts	277,161	189,469
Contributions	10,329,669	3,206,950
Investment income on endowment, net of fees	125,606	141,567
Net realized and unrealized gains (losses) on investments	1,415,963	(429,910)
Transfer related to underwater endowment investment	(405,426)	211,623
Clarification of donor intent	(25,000)	(22,544)
Net assets released from restrictions	<u>(6,729,775)</u>	<u>(1,914,585)</u>
<b>Increase in temporarily restricted net assets</b>	<b><u>4,988,198</u></b>	<b><u>1,382,570</u></b>
<b>Changes in permanently restricted net assets:</b>		
Contributions	1,346,536	82,231
Clarification of donor intent	25,000	22,544
Gains (losses) on assets held with outside trustees	<u>43,871</u>	<u>(21,190)</u>
<b>Increase in permanently restricted net assets</b>	<b><u>1,415,407</u></b>	<b><u>83,585</u></b>
<b>Increase (decrease) in net assets</b>	<b>20,558,197</b>	<b>(3,608,905)</b>
Net assets, beginning of year	<u>218,400,127</u>	<u>222,009,032</u>
<b>Net assets, end of year</b>	<b>\$ <u>238,958,324</u></b>	<b>\$ <u>218,400,127</u></b>

# LESLEY UNIVERSITY

## Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 20,558,197	\$ (3,608,905)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	6,166,636	5,648,589
Amortization	60,602	144,514
Loss on disposal of property and equipment	96,855	95,460
Provision for allowance for uncollectible amounts	(151,644)	(330,300)
Net realized and unrealized (gains) losses on investments and trusts	(15,291,021)	4,042,923
Receipts of long-term contributions	(1,371,536)	(104,775)
Changes in:		
Students' accounts receivable	617,509	18,637
Accounts, grants and interest receivable	2,950,868	(2,234,203)
Prepaid expenses and other assets	(173,290)	(610,471)
Contributions receivable	(7,889,338)	(1,285,039)
Accounts payable and accrued expenses	663,738	(2,219,019)
Annuities payable	(44,124)	(144,172)
Deferred revenue and advance payments	(2,467,001)	800,320
<b>Net cash provided by operating activities</b>	<b><u>3,726,451</u></b>	<b><u>213,559</u></b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment, net	(5,317,441)	(9,032,852)
Purchase of investments	(9,961,150)	(6,538,840)
Sale of investments	11,336,450	10,099,628
Student loans issued	(154,230)	(102,800)
Proceeds from student loans	228,901	223,703
Proceeds (payments) from trust escrow	(22)	1,601,869
<b>Net cash used in investing activities</b>	<b><u>(3,867,492)</u></b>	<b><u>(3,749,292)</u></b>
<b>Cash flows from financing activities:</b>		
Payments on bonds payable	(1,840,000)	(1,216,000)
Payments on capital lease obligations	(253,664)	(98,533)
Increase in U.S. government loan advances	12,144	19,852
Receipt of long-term contributions	1,371,536	104,775
Decrease in unexpended bond funds	-	5,006,409
Decrease in debt service reserve with trustees	72,439	5,510
<b>Net cash provided by (used in) financing activities</b>	<b><u>(637,544)</u></b>	<b><u>3,822,013</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b><u>(778,585)</u></b>	<b><u>286,280</u></b>
Cash and cash equivalents, beginning of year	<u>6,939,472</u>	<u>6,653,192</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 6,160,887</u></b>	<b><u>\$ 6,939,472</u></b>



# **LESLEY UNIVERSITY**

## ***Notes to Financial Statements***

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

Lesley University (the “University”) a multi-site university for women and men, is one of the nation’s largest providers of graduate professional education opportunities for K-12 educators. Anchored by a strong liberal arts curriculum, the University offers undergraduate and graduate programs in education, the arts, human services and the environment at its Cambridge and Boston campuses, online and in several other locations. The University’s four schools include the School of Education, the Graduate School of Arts and Social Sciences, The Art Institute of Boston, and the College of Liberal Arts and Professional Studies. The University prepares individuals for lives and careers that make a difference and serves the evolving needs of students and a diverse society through innovative programs and pedagogy, high-quality instruction, scholarship and advocacy.

The University participates in student financial aid programs sponsored by the United States Department of Education which facilitates payments of tuition and other expenses for a significant portion of its students.

#### ***Basis of Accounting***

The financial statements of the University have been prepared on the accrual basis and in accordance with the accounting and reporting principles of not-for-profit accounting.

#### ***Basis of Presentation***

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

##### ***Unrestricted Net Assets***

Net assets which are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

##### ***Temporarily Restricted Net Assets***

Net assets subject to limitations by law, and time or donor-imposed stipulations that may or will be met by actions of the University or the passage of time.

##### ***Permanently Restricted Net Assets***

Net assets subject to donor-imposed stipulations, which require that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the externally stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reclassified as “net assets released from restrictions” in the statements of unrestricted revenues, expenses and other changes in unrestricted net assets and changes in net assets.

# **LESLEY UNIVERSITY**

## ***Notes to Financial Statements***

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

#### ***Contributions Receivable***

Unconditional promises to give are recorded at fair value when initially pledged using Level 2 inputs to fair value. Initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. While the risk adjusted rate is theoretically specific to each balance, management has determined that an overall average discount rate of 2.47% and 1.94% for June 30, 2013 and 2012, respectively, reasonably accounts for this inherent risk. Amortization of the discount is included in contributions revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from plans on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

#### ***Gifts In Kind and Contributed Services***

Contributed services are recognized as gifts in kind if the services received create or enhance non-financial assets or require specialized skills. A number of volunteers contribute services to the University to assist with fundraising, admissions, recruiting and other activities. Pursuant to accounting principles generally accepted in the United States of America ("GAAP"), no amounts have been recognized in the financial statements for these services.

#### ***Endowment Gains (Losses)***

Endowment net gains (losses) on permanently restricted gifts are classified as permanently restricted, if explicitly donor stipulated, or as temporarily restricted until appropriated for spending, at which time they are reclassified to unrestricted revenues. Cumulative losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the market value equals or exceeds historic value of the gift. The University defines quasi-endowment investments as those that are designated for long-term investment by the Board of Trustees, and whose income and unrealized gains are otherwise unrestricted.

#### ***Operations***

The statements of unrestricted revenues, expenses and other changes in unrestricted net assets report the change in unrestricted net assets from operating and nonoperating activities. Tuition revenues are recognized when the related educational services are provided and are reported, net of the discount attributable to reductions, in the amounts charged to students, whether as unrestricted University financial aid or reductions from endowment funds or grants awarded to students by the University. Revenue associated with grants and contracts are recognized when the related expenses are incurred. Indirect cost recovery by the University on federal grants and contracts is based upon a predetermined negotiated rate and is recorded as unrestricted revenue. Auxiliary enterprises consist of revenues from residence halls, dining services, health services and rental properties.

# **LESLEY UNIVERSITY**

## ***Notes to Financial Statements***

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

#### ***Operations (Continued)***

Unrestricted non operating activities includes fundraising expenses, investment income and appreciation (depreciation) earned during the year in excess of the amount made available for expenditure based on the endowment spending policy.

#### ***Cash and Cash Equivalents***

The University considers as cash equivalents, highly liquid investments with maturities at date of purchase of three months or less. Cash and cash equivalents, which are under the management of the University's investment managers, are included in investments, given the expectation of near term reinvestment.

The University maintains its cash balances at several financial institutions, which at times may exceed federally insured limits. The University monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

#### ***Debt Service Reserve with Trustee***

Debt service reserve with trustee consists primarily of funds held for debt service that have been invested in accordance with the various resolutions and note agreements. These amounts are carried at fair value using Level 1 inputs as discussed subsequently in this section. These funds are invested in a U.S. Government only money market fund.

#### ***Student Loans Receivable and U.S. Government Loan Advances***

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources.

One such program is the Perkins Loan Program ("Perkins"). Perkins funds may be re-loaned by the University after collection, but in the event that the University no longer participates in the program, a portion of the amounts are generally refundable to the Federal government. Funds advanced by the Federal government of \$1,368,893 and \$1,356,749 at June 30, 2013 and 2012, respectively, are classified as liabilities in the statements of financial position. Perkins loans receivable are carried at their estimated net realizable value. Perkins loans receivable are considered past due if any portion of the receivable balance is outstanding for more than 240 days. Interest and late fees are recorded when received. Perkins loans that are in default and meet certain requirements can be assigned to the Department of Education, which reduces the Perkins refundable U.S. Government grants.

For all loans, management estimates the allowance for credit losses based on historical collection experience and current economic conditions which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

# **LESLEY UNIVERSITY**

## ***Notes to Financial Statements***

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

#### ***Bond Issuance Costs***

Bond issuance costs are amortized using the straight-line method over the life of the associated bond issue. Bond issuance costs of \$2,357,585 and \$2,359,343 are net of accumulated amortization of \$809,816 and \$749,214 as of June 30, 2013 and 2012, respectively. Amortization expense amounted to \$60,602 and \$144,514 for the years ended June 30, 2013 and 2012, respectively.

#### ***Property and Equipment***

Constructed and purchased property and equipment are carried at cost. Library books are expensed during the period the expenditures are incurred. Plant assets donated to the University are initially recorded at fair value at the date of the gift. Fair value is determined as discussed subsequently in this section and is effectively recorded using Level 3 market inputs. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of land, buildings and equipment are recorded as unrestricted support at fair value as described later in this section. Long-lived fixed assets, with the exception of land, are depreciated using the straight-line method over their estimated useful lives, which range from five to forty-five years.

#### ***Investments and Trusts***

Investments are recorded at fair value as discussed subsequently in this section. The fair value of investments is determined based on quoted market prices or using other fair value approaches when quoted market prices are not available. Investments include assets received under various split interest agreements held with outside trustees.

#### ***Fair Value Measurements***

The University reports certain assets and liabilities at fair value on a recurring or non-recurring basis depending on the underlying policy for the particular item, in accordance with fair value standards. 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. Recurring fair value measurements include the University's investments, debt service reserve with trustee, unexpended bond proceeds and trust escrow receivable. Non-recurring measurements include contributions receivable and annuities payable. In addition, the University 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 University 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.

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

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

#### *Fair Value Measurements (Continued)*

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 University's financial instruments, see Note 8 - Fair Values of Financial Instruments.

#### *Concentration of Credit Risk*

The University's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The University places its cash and cash equivalents with high-credit, quality financial institutions. The University routinely assesses the financial strength of these institutions and, as a consequence, believes that its cash and cash equivalents credit risk exposure is limited.

#### *Annuities Payable*

The University has entered into a variety of charitable gift annuities where the University agrees to pay a donor and named beneficiaries a fixed amount per year for the life of the annuitants. In exchange, the University receives assets recorded at fair value at the date of the gifts. The difference between the fair value of the assets and the present value of the annuity obligation represents contribution revenue. The charitable gift annuity obligations are unsecured debts of the University. The initially recorded fair value of the donated investments is determined based on the underlying nature of the investments received utilizing Level 1, 2 or 3 inputs while the initial measurement of the related obligations are Level 2 inputs.

# **LESLEY UNIVERSITY**

## ***Notes to Financial Statements***

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

#### ***Deferred Revenue and Advance Payments***

Students' reservation deposits along with advance payments for summer and fall tuition, room and board and certain expenditures, which relate to the University's summer sessions, have been deferred and are recorded as unrestricted revenues and expenditures in the year in which the related operational services are provided.

#### ***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 disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant management estimates included in the financial statements relate to the allowance for doubtful students accounts, loans, contributions and grants receivable, fair value of certain financial instruments, useful lives of depreciable assets, conditional asset retirement and capital lease obligations, valuation of severance accrual, valuation of annuities payable, and the allocation of common expenses over program functions.

#### ***Income Taxes***

The University is recognized by the Internal Revenue Service as a University described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from Federal and state income taxes on related income. Accordingly, a provision for income taxes is made only for unrelated income, which management considers diminimus.

#### ***Uncertain Tax Positions***

The University 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 University has identified its tax status as a tax-exempt entity as its only significant tax position; however, the University has determined that such tax position does not result in an uncertainty requiring recognition. In addition, the University has identified certain minor tax positions with respect to certain of its activities that management did not consider material and, accordingly, such amounts were not recognized.

The University's Federal and state tax returns are generally open for examination for three years following the date filed.

# **LESLEY UNIVERSITY**

## ***Notes to Financial Statements***

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

#### ***Asset Retirement Obligations***

The University follows accounting standards for conditional asset retirement obligations which requires that conditional asset retirement obligations (“AROs”) that meet the definition of liabilities should be recognized when incurred if their fair values can be reasonably estimated.

As of June 30, 2013 and 2012, the University was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation AROs. These conditional AROs are primarily related to the necessary structural updates to various properties owned by the University. Because these conditional obligations have indeterminate settlement dates, the University could not develop a reasonable estimate of their fair values. The University will continue to assess its ability to estimate fair values at each future reporting date.

#### ***Advertising***

The University expenses the cost of advertising when incurred. Advertising expense was approximately \$1,071,000 and \$1,717,000 for the years ended June 30, 2013 and 2012, respectively.

#### ***Fundraising***

The University expenses the cost of fundraising when incurred. Fundraising expense was approximately \$1,723,000 and \$1,408,000 for the years ended June 30, 2013 and 2012, respectively.

#### ***Functional Expense Allocation***

Costs have been allocated to functional classifications based on percentage of effort, usage, square footage and other criteria.

#### ***Reclassifications***

Certain amounts reported in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### ***Note 2 - Students' Accounts Receivable***

Students' accounts receivable consist of the following at June 30:

	<b>2013</b>	<b>2012</b>
Students' accounts	\$ 8,700,192	\$ 9,014,413
Allowance	<u>(4,132,741)</u>	<u>(3,981,097)</u>
	<b><u>\$ 4,567,451</u></b>	<b><u>\$ 5,033,316</u></b>

### ***Note 3 - Trust Escrow Receivable***

Trust escrow receivable represents remaining amounts escrowed in connection with the sale of an interest in a privately-held company in 2008. Such funds are held in a money market mutual fund. Management expects to receive the remaining balance in fiscal 2014.

### ***Note 4 - Contributions Receivable***

Contributions receivable are summarized as follows at June 30:

	<b>2013</b>	<b>2012</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 2,889,932	\$ 1,122,622
One year to five years	8,501,477	2,610,636
Greater than five years	<u>1,295,000</u>	<u>-</u>
	12,686,409	3,733,258
Less present value discount and allowance for doubtful accounts	<u>(1,200,138)</u>	<u>(136,325)</u>
<b>Contributions receivable, net</b>	<b><u>\$ 11,486,271</u></b>	<b><u>\$ 3,596,933</u></b>



# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 5 - Student Loans Receivable*

Student loans consist of the following at June 30:

	<i>2013</i>	<i>2012</i>
Perkins Loans Program	\$ <u>1,459,709</u>	\$ <u>1,534,380</u>
Less allowance for doubtful accounts:		
Beginning of year	56,034	62,306
Write-offs	<u>-</u>	<u>(6,272)</u>
End of year	<u>56,034</u>	<u>56,034</u>
<b>Student loans receivable, net</b>	<b>\$ <u>1,403,675</u></b>	<b>\$ <u>1,478,346</u></b>

At June 30, 2013 and 2012, the following amounts were past due under student loan programs:

<i>June 30,</i>	<i>Loans Past Due</i>	<i>Loans in Default</i>	<i>Total Past Due/Default</i>	<i>Current</i>	<i>Total Receivable</i>
2013	\$ 129,057	\$ 358,538	\$ 487,595	\$ 972,114	\$ 1,459,709
2012	119,120	370,683	489,803	1,044,577	1,534,380

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 6 - Property and Equipment*

The following is a summary of the University's property and equipment at June 30:

	<i>2013</i>	<i>2012</i>
Land and improvements	\$ 18,524,497	\$ 18,470,779
Building and improvements	160,637,221	156,769,887
Furniture and equipment	13,922,858	13,742,095
Construction in progress	<u>6,531,699</u>	<u>5,672,926</u>
<b>Total property and equipment</b>	<b>199,616,275</b>	<b>194,655,687</b>
Less accumulated depreciation and amortization	<u>(50,911,542)</u>	<u>(46,083,926)</u>
<b>Property and equipment, net</b>	<b><u>\$ 148,704,733</u></b>	<b><u>\$ 148,571,761</u></b>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$6,166,636 and \$5,648,589, respectively.

Some of the buildings owned by the University are shared land with the Episcopal Divinity School ("EDS"). This shared land is held under a condominium association, which manages the shared expenses.

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 7 - Investments and Trusts*

Investments and trusts activity consisted of the following for the years ended June 30:

	<b>2013</b>	<b>2012</b>
<b>Investments and trusts, beginning of year</b>	<b>\$ 157,004,566</b>	<b>\$ 164,608,276</b>
Investment activity:		
Dividend income, net of expenses of \$552,594 and \$520,578 in 2013 and 2012, respectively	1,347,217	1,569,628
Realized and unrealized gains (losses)	15,247,150	(4,021,733)
Investments reclassified under board designations	(7,247,914)	(8,030,214)
Investment transfers, net of board designation reclassifications	4,525,396	2,899,799
<b>Total investment activity</b>	<b>13,871,849</b>	<b>(7,582,520)</b>
Trust activity:		
Realized and unrealized gains (losses)	43,871	(21,190)
<b>Total trust activity</b>	<b>43,871</b>	<b>(21,190)</b>
<b>Investments and trusts, end of year</b>	<b>\$ 170,920,286</b>	<b>\$ 157,004,566</b>

The amount of investment income appropriated to operations is the amount calculated by the 5.03% spending rate with the remaining balances reported as non operating.

# LESLEY UNIVERSITY

## Notes to Financial Statements

### Note 7 - Investments and Trusts (Continued)

The University's investments at fair value are summarized as follows at June 30:

	2013	2012
<b><u>Pooled investments</u></b>		
<i><u>Board Designated</u></i>		
Flex Capital Funds	\$ 48,797,946	\$ 43,276,002
Domestic Equity Funds	31,681,864	26,828,935
International Equity Funds	24,736,718	21,995,185
Public Real Assets	20,397,045	22,779,467
Fixed Income Security Funds	20,916,599	20,876,874
Private Real Assets	3,120,605	3,100,579
Private Equity Funds	2,438,152	2,557,891
Cash	1,502,464	123,663
	<u>153,591,393</u>	<u>141,538,596</u>
<i><u>Temporarily and Permanently Restricted</u></i>		
Flex Capital Funds	5,097,102	4,526,938
Domestic Equity Funds	4,003,717	2,806,473
International Equity Funds	2,577,880	2,300,833
Public Real Assets	2,138,706	2,382,874
Fixed Income Security Funds	2,186,561	2,183,851
Private Real Assets	326,746	324,340
Private Equity Funds	254,985	267,571
Cash	48,271	22,036
	<u>16,633,968</u>	<u>14,814,916</u>
<b><u>Trust investments</u></b>		
Temporarily and Permanently Restricted Assets		
Dixie Wonders Trust	<u>694,925</u>	<u>651,054</u>
<b>Total investments and trusts</b>	<b>\$ <u>170,920,286</u></b>	<b>\$ <u>157,004,566</u></b>

# LESLEY UNIVERSITY

## Notes to Financial Statements

### Note 7 - Investments and Trusts (Continued)

The assets held under trust investments relate to the assets of a life trust fund and an irrevocable perpetual trust, which are held by independent donor-appointed trustees. Income from the trusts amounted to \$25,244 and \$26,219 for the years ended June 30, 2013 and 2012, respectively.

Income from the trusts is recognized “upon distribution” unless deemed as return of capital.

### Note 8 - Fair Values of Financial Instruments

The valuation of the University’s financial instruments by the fair value hierarchy consisted of the following at June 30, 2013:

	<i>Portion Carried at Fair Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Assets:				
Debt service reserve with trustees	\$ <u>6,479,282</u>	\$ <u>6,479,282</u>	\$ <u>-</u>	\$ <u>-</u>
Trust escrow receivable	<u>175,905</u>	<u>175,905</u>	<u>-</u>	<u>-</u>
Investments and trusts:				
Flex capital funds	53,895,048	-	16,515,506	37,379,542
Domestic equity funds	35,685,581	35,685,581	-	-
International equity funds	27,314,598	-	27,314,598	-
Public real assets	22,535,751	22,535,751	-	-
Fixed income security funds	23,103,160	14,394,726	8,708,434	-
Private real assets	3,447,351	-	-	3,447,351
Private equity funds	2,693,137	-	-	2,693,137
Cash	1,550,735	1,550,735	-	-
Dixie Wonders Trust	694,925	-	-	694,925
	<u>170,920,286</u>	<u>74,166,793</u>	<u>52,538,538</u>	<u>44,214,955</u>
<b>Total assets at fair value</b>	<b>\$ <u>177,575,473</u></b>	<b>\$ <u>80,821,980</u></b>	<b>\$ <u>52,538,538</u></b>	<b>\$ <u>44,214,955</u></b>

# LESLEY UNIVERSITY

## Notes to Financial Statements

### Note 8 - Fair Values of Financial Instruments (Continued)

The valuation of the University's financial instruments by the fair value hierarchy consisted of the following at June 30, 2012:

	<i>Portion Carried at Fair Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Assets:				
Debt service reserve with trustees	\$ <u>6,551,721</u>	\$ <u>6,551,721</u>	\$ <u>-</u>	\$ <u>-</u>
Trust escrow receivable	<u>175,883</u>	<u>175,883</u>	<u>-</u>	<u>-</u>
Investments and trusts:				
Flex capital funds	47,802,939	-	14,710,575	33,092,364
Domestic equity funds	29,635,408	29,635,408	-	-
International equity funds	24,296,018	-	24,296,018	-
Public real assets	25,162,341	25,162,341	-	-
Fixed income security funds	23,060,725	14,360,113	8,700,612	-
Private real assets	3,424,919	-	-	3,424,919
Private equity funds	2,825,463	-	-	2,825,463
Cash	145,699	145,699	-	-
Dixie Wonders Trust	651,054	-	-	651,054
	<u>157,004,566</u>	<u>69,303,561</u>	<u>47,707,205</u>	<u>39,993,800</u>
<b>Total assets at fair value</b>	<b>\$ <u>163,732,170</u></b>	<b>\$ <u>76,031,165</u></b>	<b>\$ <u>47,707,205</u></b>	<b>\$ <u>39,993,800</u></b>

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

# LESLEY UNIVERSITY

## Notes to Financial Statements

### Note 8 - Fair Values of Financial Instruments (Continued)

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

	<i>Dixie Wonders Trust</i>	<i>Flex Capital</i>	<i>Private Equity</i>	<i>Private Real Assets</i>	<i>Total</i>
<b>Balance, July 1, 2011</b>	<b>\$ 672,243</b>	<b>\$ 32,797,004</b>	<b>\$ 2,536,173</b>	<b>\$ 2,861,255</b>	<b>\$ 38,866,675</b>
Purchases	-	246,750	295,664	527,000	1,069,414
Unrealized gains	(21,189)	297,598	393,797	422,416	1,092,622
Net transfers out	<u>-</u>	<u>(248,988)</u>	<u>(400,171)</u>	<u>(385,752)</u>	<u>(1,034,911)</u>
<b>Balance, June 30, 2012</b>	<b>651,054</b>	<b>33,092,364</b>	<b>2,825,463</b>	<b>3,424,919</b>	<b>39,993,800</b>
Purchases	-	98,310	169,537	401,720	669,567
Sales	-	(201,246)	(32,162)	(11,410)	(244,818)
Unrealized gains	43,871	4,649,614	179,313	411,828	5,284,626
Net transfers out	<u>-</u>	<u>(259,500)</u>	<u>(449,014)</u>	<u>(779,706)</u>	<u>(1,488,220)</u>
<b>Balance, June 30, 2013</b>	<b>\$ <u>694,925</u></b>	<b>\$ <u>37,379,542</u></b>	<b>\$ <u>2,693,137</u></b>	<b>\$ <u>3,447,351</u></b>	<b>\$ <u>44,214,955</u></b>

The University's Dixie Wonders Trust investment is recorded at their fair market value using Level 1 inputs but it is classified as a Level 3 investment due to their lock-up provision.

All Level 2 and 3 investments have been presented at the net asset value per share as reported by the investor company. Management has no intentions or plans to liquidate any net asset value ("NAV") practical expedient investments at other than net asset value per share.

For fiscal years 2013 and 2012, the \$1,488,220 and \$1,034,911, respectively, transfers out were the total net return of capital from Level 3 funds, which were reinvested into cash.

Unfunded commitments under various investment vehicles amounted to approximately \$1,900,000 at June 30, 2013.

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 8 - Fair Values of Financial Instruments (Continued)*

Fair value of financial instruments for which the University did not elect the fair value option includes cash and cash equivalents, receivables, accounts payable, annuities payable and government loan advances. The fair values of such instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Certain of these instruments are short-term in nature and accordingly, fair values are estimated to approximate carrying values. For other instruments, management has determined that the costs associated with assessing an estimate of fair value outweigh the benefits from this additional information. The fair values of the estimable instruments have been derived, in part, by management's assumptions under Level 2 inputs. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates at June 30, 2013. In addition, the estimates are only indicative of the value of the individual financial instruments and should not be considered an indication of the fair value of the University.

The fair value of the University's fixed rate bonds (2009 and 2011 issues) at June 30, 2013 and 2012 approximates \$93,546,254 and \$103,560,000, respectively. The fair value is estimated based on quoted market prices for the same or similar issues using Level 2 fair value inputs. The market prices utilized reflect the rate that the University would have to pay to a creditworthy third party to assume its obligation and do not reflect an additional liability to the University. Management has not evaluated fair value of the fixed rate bonds (2012 issue) given the cost associated with obtaining such data. Management believes that this information is not meaningful to readers given the long-term commitments from their financial partners.

### *Note 9 - Annuities Payable*

Annuities payable represent arrangements between donors and the University in which the donors have contributed assets in exchange for a promise by the University to pay a fixed amount for a specified period of time to the donors or their designees. Annuity liabilities require the use of life tables and discount rates to determine the present value of the obligation at year end.

The net present value of the annual annuity payments over the next five years and thereafter are as follows at June 30, 2013:

2014	\$	155,854
2015		165,360
2016		175,135
2017		185,110
2018		196,166
Thereafter		<u>2,740,517</u>
	\$	<u><u>3,618,142</u></u>



# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 10 - Debt*

#### *Line of Credit*

The University has a \$10,000,000 revolving line of credit with a bank with an interest rate equal to the London Interbank Offered Rate ("LIBOR") plus 1%. The line is secured, on a parity basis with all other indebtedness of the University that is secured by a pledge of the University's tuition receipts, as set forth in the indenture. The bank, on a parity basis, has the benefit of any gross revenue pledge, mortgage, or other security granted by the University in security of any indebtedness, as set forth in the indenture. There was no outstanding balance under this line of credit at June 30, 2013 and 2012. This line of credit is due to expire on March 31, 2014. Management expects to renew this credit line under similar terms.

#### *Bonds Payable*

The University has outstanding \$32,540,000 in Massachusetts Development Finance Agency Fixed Rate Revenue Bonds, Series 2011. The bonds were issued to defease the Series 2003 bonds as well as to facilitate various Americans with Disabilities Act of 1990 required improvements throughout the University. The University incurred \$1,693,703 in costs associated with the 2011 issue (including \$611,686 issuance discount), which have been capitalized and are being amortized over the life of the bonds. Payment of the bond is fully insured with an insurance company. The bond agreement contains certain covenants, the most restrictive of which are semi-annual debt service coverage and liquidity ratios. As of June 30, 2013 and 2012, the University is in compliance with these covenants.

In addition, the University has outstanding \$54,900,000 in MHEFA Fixed Rate Revenue Bonds, Series 2009. The bonds were issued to pay off a line of credit that the University had used as a "bridge loan" to facilitate property purchases from the Episcopal Divinity School and the Weston Jesuit School of Theology and for the construction of a new dormitory. The University incurred \$2,641,689 in costs associated with the 2009 issue (including \$1,153,607 issuance discount) which have been capitalized and are being amortized over the life of the bonds. Payment of the bond is fully insured with an insurance company. The bond agreement contains certain covenants, the most restrictive of which are semi-annual debt service coverage and liquidity ratios. As of June 30, 2013 and 2012, the University is in compliance with these covenants.

In August 2012, the University defeased the Massachusetts Development Finance Agency ("MDFA") Tax-Exempt Commercial Paper Revenue Notes, Series 2006 with the Series 2012 bonds as described below. The notes were issued for the purchase of real estate, construction and various renovation projects for the University. In connection with the 2006 MDFA bond issue, the University established a letter of credit agreement with a bank. The letter of credit agreement contained certain covenants, the most restrictive of which were semi-annual debt service coverage and liquidity ratios. In relation to the defeasance noted above, the letter of credit was terminated during 2013. The fees associated with the letter of credit agreement in 2012 are included in interest expense.

As noted above, in August 2012, the University entered into an arrangement with the Massachusetts Development Finance Agency for \$5,030,300 of fixed rate revenue bonds, Series 2012. These bonds were a direct placement. These bonds were issued to refinance the 2006 Commercial Paper Issue noted above. The University incurred \$93,428 in costs associated with the 2012 issue which have been capitalized and are being amortized over the life of the bonds. The bond agreement contains certain covenants, the most restrictive of which are semi-annual debt service coverage and liquidity ratios. As of June 30, 2013 the University was in compliance with these covenants. The balance of the bonds was \$4,688,000 at June 30, 2013.

# LESLEY UNIVERSITY

## Notes to Financial Statements

### Note 10 - Debt (Continued)

#### Bonds Payable (Continued)

The following is a summary of the University's bonds payable at June 30:

	2013	2012
Massachusetts Development Finance Agency Revenue Bonds (Series 2011), maturing at various times through 2033 with fixed interest rates ranging from 3.5-5.25%.	\$ 32,540,000	\$ 33,115,000
Massachusetts Health and Educational Facilities Authority Revenue Bonds (Series 2009), maturing at various times through 2039 with fixed interest rates ranging from 3.0-5.25%.	54,900,000	55,750,000
Massachusetts Development Finance Agency Commercial Paper (Series 2006), maturing in 2021 with a variable interest rate. Refinanced in 2013.	-	5,103,000
Massachusetts Development Finance Agency Revenue Bonds (Series 2012), maturing in 2021 with a fixed interest rate of 2.14%	4,688,000	-
	92,128,000	93,968,000
Less unamortized bond discount	(1,552,527)	(1,611,371)
<b>Bonds payable, net</b>	<b>\$ 90,575,473</b>	<b>\$ 92,356,629</b>

The debt is secured in the same manner as the aforementioned line of credit, on a parity basis with all other indebtedness of the University, that is secured by a pledge of the University's tuition receipts, as set forth in the indenture. The bank, on a parity basis, has the benefit of any gross revenue pledge, mortgage, or other security granted by the University in security of any indebtedness, as set forth in the indenture.

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 10 - Debt (Continued)*

#### *Bonds Payable (Continued)*

Scheduled maturities of the bonds payable is as follows:

2014	\$	1,910,000
2015		1,990,000
2016		2,068,000
2017		2,149,000
2018		2,240,000
Thereafter		<u>81,771,000</u>
<b>Total bonds payable</b>	<b>\$</b>	<b><u><u>92,128,000</u></u></b>

### *Note 11 - Commitments and Contingencies*

#### *Capital Leases*

In 2012, the University leased certain equipment under long-term capital leases thru 2015 and has the option to purchase the equipment for fair value as determined by the University at the termination of the leases. Assets included in property and equipment under capital leases are as follows at June 30:

	<b>2013</b>	<b>2012</b>
Equipment	\$ 615,239	\$ 615,239
Less: accumulated depreciation	<u>307,620</u>	<u>102,540</u>
	<b><u><u>\$ 307,619</u></u></b>	<b><u><u>\$ 512,699</u></u></b>

During 2013 and 2012, depreciation expense on leased equipment was \$205,080 and \$102,540, respectively.

#### *Operating Leases*

The University has numerous operating lease obligations through 2015. Operating lease expense amounted to \$657,392 and \$622,859 for the years ended June 30, 2013 and 2012, respectively.

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 11 - Commitments and Contingencies (Continued)*

#### *Operating Leases (Continued)*

Future minimum rental commitments under capital and operating are as follows:

	<i>Operating Leases</i>	<i>Capital Leases</i>
2014	\$ 481,940	\$ 273,876
2015	356,444	170,951
Less: Interest	<u>-</u>	<u>(10,899)</u>
<b>Net</b>	<b>\$ <u>1,563,739</u></b>	<b>\$ <u>433,928</u></b>

#### *Commitments*

The University has long-term agreements with several third-party vendors for custodial services, security, food services, bookstore operations, mail room operations and copy center operations. The expiration dates on these contracts range from 2013 to 2015.

The University has entered into a commitment to sponsor the “Boston Speaker Series.” The costs of operation will be \$350,000 per year from fiscal year 2014 through 2017. The University does solicit contributions from local businesses to help defray the costs of operation.

As part of the University’s building permit provisions from the City of Cambridge (the “City”) to construct the new College of Arts and Design Arts Center, the University has entered into a commitment to contribute \$649,000 to the City for improvements along Massachusetts Avenue. The commitment is contingent upon receipt of the University’s building permit in fiscal year 2014.

#### *Contingencies*

The University generally is subject to claims and investigations, which arise in the normal course of its operations. The University believes that the outcome of these cases will not have a material adverse effect on the financial position of the University.

#### *Employment Agreements*

The University has a long-term employment agreement with its President that stipulates a variety of business terms typical in the education sector.

The University also has employment contracts with key employees, which extend over multiple fiscal years that contain provisions for payments if terminated without cause.

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 11 - Commitments and Contingencies (Continued)*

#### *Other*

All funds expended by the University in connection with government grants are subject to review or audit by government agencies. As of June 30, 2012, the University had completed a review by the Internal Revenue Service ("IRS"). This review was part of a larger IRS project to collect data on colleges and universities. No significant findings occurred as a result of this IRS review.

### *Note 12 - Net Assets and Endowment Matters*

#### *Unrestricted Net Assets*

Unrestricted net assets are comprised of the following:

***General and other purposes*** - Discretionary funds available for carrying on the operating activities of the University. Included are funds set aside by the Board of Trustees to provide investment income to support operations. These funds set aside by the Board of Trustees may only be used with the approval of the Board of Trustees.

***Board-designated construction fund*** - Funds set aside by the Board of Trustees for the purpose of providing funding for the planned construction of a new art school facility.

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

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets are comprised of the following:

***Unrealized and realized gains on permanently restricted investments*** - In accordance with U.S. generally accepted accounting principles and Massachusetts state law these amounts represent un-appropriated gains on permanently restricted endowment investments.

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

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 12 - Net Assets and Endowment Matters (Continued)*

Temporarily restricted net assets consist of the following at June 30:

	<b>2013</b>	<b>2012</b>
Accumulated unspent gains:		
Instruction	\$ 4,795,963	\$ 4,476,402
Student aid	922,082	671,372
Other (general institutional, academic support, student services)	49,621	31,665
Total accumulated unspent gains	<u>5,767,666</u>	<u>5,179,439</u>
Other temporarily restricted net assets:		
Instruction	2,777,977	3,434,651
Research	-	9,775
Student aid	556,644	349,680
Plant	10,473,338	5,184,980
Other (general institutional, academic support, student services)	13,237	442,139
Total other temporarily restricted net assets	<u>13,821,196</u>	<u>9,421,225</u>
<b>Total temporarily restricted net assets</b>	<b><u>\$ 19,588,862</u></b>	<b><u>\$ 14,600,664</u></b>

Temporarily restricted net assets were released from restrictions as follows at June 30:

	<b>2013</b>	<b>2012</b>
Instruction	\$ 1,703,369	\$ 1,230,464
Research	34,832	27,384
Student aid	330,673	360,982
Plant	4,336,004	75,284
Other (general institutional, academic support, student services)	324,897	220,471
	<u>\$ 6,729,775</u>	<u>\$ 1,914,585</u>

Net assets released from restriction of \$547,914 and \$564,214 represented amounts attributed to accumulated unspent gains as of June 30, 2013 and 2012, respectively.

# LESLEY UNIVERSITY

## Notes to Financial Statements

### Note 12 - Net Assets and Endowment Matters (Continued)

#### Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following:

**Instruction** - Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for instruction and is recorded in temporarily restricted net assets until appropriated for expenditure.

**Academic support** - Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for academic support and is recorded in temporarily restricted net assets until appropriated for expenditure.

**General institutional** - Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for general institutional and is recorded in temporarily restricted net assets until appropriated for expenditure.

**Student aid** - Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for student aid and is recorded in temporarily restricted net assets until appropriated for expenditure.

	<b>2013</b>	<b>2012</b>
Instruction	\$ 3,934,854	\$ 3,945,564
Academic support	272,904	272,904
General institutional	774,923	731,052
Student aid	<u>7,724,075</u>	<u>6,341,829</u>
	<b><u>\$ 12,706,756</u></b>	<b><u>\$ 11,291,349</u></b>

# LESLEY UNIVERSITY

## Notes to Financial Statements

### Note 12 - Net Assets and Endowment Matters (Continued)

Endowments and funds functioning as endowment are as follows for the years ended June 30, 2013 and 2012:

<i>2013</i>	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 141,538,597	\$ 4,561,759	\$ 10,904,210	\$ 157,004,566
Gifts and additions	3,700,000	-	825,397	4,525,397
Investment returns:				
Interest and dividends, net of investment expenses	1,221,610	125,607	-	1,347,217
Net realized and unrealized gains (losses)	13,831,186	1,415,963	43,871	15,291,020
Total investment returns	15,052,796	1,541,570	43,871	16,638,237
Expenditures:				
Amounts appropriated for operations	(6,700,000)	(547,914)	-	(7,247,914)
Change in investments	12,052,796	993,656	869,268	13,915,720
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b>\$ 153,591,393</b>	<b>\$ 5,555,415</b>	<b>\$ 11,773,478</b>	<b>\$ 170,920,286</b>



# LESLEY UNIVERSITY

## Notes to Financial Statements

### Note 12 - Net Assets and Endowment Matters (Continued)

<b>2012</b>	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 149,003,359	\$ 5,414,316	\$ 10,190,601	\$ 164,608,276
Gifts and additions	2,165,000	-	734,799	2,899,799
Investment returns:				
Interest and dividends, net of investment expenses	1,428,060	141,567	-	1,569,627
Net realized and unrealized gains (losses)	(3,591,822)	(429,910)	(21,190)	(4,042,922)
Total investment returns	(2,163,762)	(288,343)	(21,190)	(2,473,295)
Expenditures:				
Amounts appropriated for operations	(7,466,000)	(564,214)	-	(8,030,214)
Change in investments	(7,464,762)	(852,557)	713,609	(7,603,710)
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b>\$ 141,538,597</b>	<b>\$ 4,561,759</b>	<b>\$ 10,904,210</b>	<b>\$ 157,004,566</b>

### Endowment

The University's endowment consists of approximately 90 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by 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.

# **LESLEY UNIVERSITY**

## ***Notes to Financial Statements***

### ***Note 12 - 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.

The University classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with standard of prudence prescribed by state law.

State law allows the Board of Trustees to appropriate a percentage of net appreciation as is prudent considering the University's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

The University invests its endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of cash yield and appreciation of investments earned during the year is provided for program support. In the past, the University has adopted an endowment spending policy designed specifically to stabilize annual spending levels and to preserve the real value of the endowment portfolio over time. For fiscal years 2013 and 2012, the University adopted a dollar spending policy that is approved by the Board of Trustees.

For fiscal year 2013, the endowment spending was equal to \$7.3 million. The fiscal year 2013 spending equated to 4.41% of the endowment market value at March 31, 2012. In fiscal year 2013, there was additional spending of \$1 million, which had been set aside from prior year surpluses, into the board-designated Quasi endowment. In total, the fiscal year 2013 spending equated to 5.03% of the endowment market value at March 31, 2012.

For fiscal year 2012, the endowment spending was equal to \$7.3 million. The fiscal year 2012 spending equated to 4.45% of the endowment market value at March 31, 2011. In fiscal year 2012, there was additional spending of \$766,000, which had been set aside from prior year surpluses, into the board-designated Quasi endowment. In total, the fiscal year 2012 spending equated to 4.89% of the endowment market value at March 31, 2011. The spending policy is reviewed on an annual basis as part of the budgeting process.

#### ***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 University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported as unrestricted are \$212,254 and \$617,680 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

# LESLEY UNIVERSITY

## *Notes to Financial Statements*

### *Note 12 - Net Assets and Endowment Matters (Continued)*

#### *Return Objectives and Risk Parameters*

The University's investment portfolio is managed to provide for the long-term support of the University. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flows 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) is at least the spending policy plus inflation.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the University 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 University 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 University 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 13 - Lessor Arrangements*

Certain University-owned properties are rented to outside parties based on a combination of tenancy-at-will and lease arrangements. The rental income, which is included in auxiliary enterprises, amounted to \$3,910,258 and \$3,838,887 for the years ended June 30, 2013 and 2012, respectively.

At June 30, 2013, approximate non-cancelable lease revenue commitments under these leases were as follows:

2014	\$	1,847,214
2015		1,799,709
2016		1,718,288
2017		1,617,933
2018		1,345,107
Thereafter		2,252,831

### *Note 14 - Retirement Plans*

All eligible full-time and part-time personnel may elect to participate in a defined contribution plan administered by the Teachers Insurance and Annuity Association of America and the College Retirement Equities Fund. The University makes monthly contributions to the plan which are immediately vested for the benefit of the participants. Contributions are based on years of service with a maximum contribution of 8%. Employees must also contribute between 3% and 5% of annual wages in order to be eligible for a University match. Voluntary contributions by participants above the minimum requirement may be made subject to IRS limitations. The University's contributions under the plan were \$2,581,330 and \$2,351,687 for the years ended June 30, 2013 and 2012, respectively.

# **LESLEY UNIVERSITY**

## ***Notes to Financial Statements***

### ***Note 15 - Cash Flows Information***

During 2013 and 2012, cash paid for interest totaled \$4,386,257 and \$4,388,639, respectively.

During 2013 and 2012, the University retired fully depreciated property and equipment with original gross costs totaling \$1,339,019 and \$3,406,916, respectively.

Non-cash investing and operating activities include \$1,441,022 and \$272,020 of capital acquisitions included in accounts payable at June 30, 2013 and 2012, respectively.

Non-cash investing and operating activities include \$90,000 of a receivable associated with the disposal of software.

During 2013, non-cash financing activities included the defeasance of the Series 2006 Commercial Paper through a refinance with the Series 2012 Revenue Bonds in the amount of \$5,030,300.

During 2012, non-cash investing and financing activities included additions to equipment purchased with capital leases totaling \$786,125.

### ***Note 16 - Related Party Transactions***

During 2013, the University processed payments to a related party in the amount of \$1,414,873 relating to certain construction costs incurred by the University.

### ***Note 17 - Subsequent Events***

Subsequent to June 30, 2013, the Board approved the transfer of \$1,000,000 from operating cash and cash equivalents into the board-designated AIB Construction Fund.

Subsequent to June 30, 2013, the Board approved the transfer of \$1,000,000 from cash and cash equivalents into investments.

The University has evaluated subsequent events through September 25, 2013, the date the financial statements were issued. Other than the matters above, no events have occurred requiring measurement or disclosure in the financial statements.