



SPELMAN COLLEGE

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report

The Board of Trustees
Spelman College:

We have audited the accompanying statements of financial position of Spelman College (the College) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spelman College as of June 30, 2011 and 2010, and changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 24, 2011

Martin, Harps, Syphe & Co.

SPELMAN COLLEGE

Statements of Financial Position

June 30, 2011 and 2010

	2011	2010
Assets:		
Cash and cash equivalents (including restricted cash of \$0 in 2011 and \$288,896 in 2010)	\$ 14,720,311	9,617,138
Student accounts receivable (net of allowance for doubtful accounts of \$2,000,000 in 2011 and \$1,900,000 in 2010)	1,683,000	1,689,318
Grants and other receivables	702,679	1,226,027
Contributions receivable, net (note 2)	10,463,706	12,955,381
Student notes receivable (net of allowance for doubtful accounts of \$1,200,000 in 2011 and 2010)	1,594,065	1,739,217
Investments (notes 3 and 10)	326,928,910	295,220,195
Bond issuance costs, net	1,035,377	1,109,486
Other assets	839,026	585,646
Property and equipment, net (note 5)	154,210,337	162,560,275
Total assets	\$ 512,177,411	486,702,683
Liabilities:		
Accounts payable and accrued expenses	\$ 4,721,945	5,350,669
Accrued compensation and related expenses	5,549,655	5,363,491
Deferred revenue	778,258	842,850
Bonds and note payable (note 6)	102,588,177	106,253,680
Obligation under capital leases (note 13)	524,887	705,411
Advances from federal government	1,579,545	1,613,403
Total liabilities	115,742,467	120,129,504
Net assets:		
Unrestricted:		
Undesignated	113,329	111,644
Designated by the board of trustees as follows:		
Quasi-endowment	55,486,374	50,193,284
Student loans	178,239	182,060
Retirement of debt	—	135,068
Facilities expansion	3,980,343	1,987,363
Investment in property and equipment	44,535,143	49,101,311
Total unrestricted net assets	104,293,428	101,710,730
Temporarily restricted (note 9)	178,533,217	152,541,565
Permanently restricted (note 9)	113,608,299	112,320,884
Total net assets	396,434,944	366,573,179
Commitments and contingencies (notes 3, 6, 12, and 13)		
Total liabilities and net assets	\$ 512,177,411	486,702,683

See accompanying notes to financial statements.

SPELMAN COLLEGE

Statement of Activities

Year ended June 30, 2011

(with summarized financial information for the year ended June 30, 2010)

	2011			2010 Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating revenues:				
Tuition and fees	\$ 44,258,104	—	—	44,258,104
Less student aid	(13,698,019)	—	—	(13,698,019)
Tuition and fees, net	30,560,085	—	—	30,560,085
Government grants and contracts	481,131	7,122,297	—	7,603,428
Private gifts and grants	2,264,229	10,853,358	—	13,117,587
Investment income (note 3)	27,532	3,611	—	31,143
Realized and unrealized gains on investments (note 3)	5,053	—	—	5,053
Endowment spending in accordance with College's spending rule (note 3)	4,754,727	11,516,673	—	16,271,400
Sales and services of auxiliary enterprises	17,171,846	—	—	17,171,846
Other	869,629	—	—	869,629
Net assets released from restrictions (note 8)	26,133,625	(26,133,625)	—	—
Total operating revenues	82,267,857	3,362,314	—	85,630,171
Operating expenses (note 11):				
Instruction	25,618,042	—	—	25,618,042
Research	3,844,092	—	—	3,844,092
Public service	213,957	—	—	213,957
Academic support	7,346,174	—	—	7,346,174
Student services	10,760,989	—	—	10,760,989
Institutional support	23,863,854	—	—	23,863,854
Auxiliary enterprises	14,511,822	—	—	14,511,822
Total operating expenses	86,158,930	—	—	86,158,930
Change in net assets from operating activities	(3,891,073)	3,362,314	—	(528,759)
Nonoperating activities:				
Contributions	—	936,294	1,281,477	2,217,771
Investment income (note 3)	584,561	3,008,015	—	3,592,576
Change in present value of split interest agreements	—	(972)	—	(972)
Realized and unrealized gains on investments	13,199,262	30,202,674	5,938	43,407,874
Endowment spending in accordance with College's spending rule (note 3)	(4,754,727)	(11,516,673)	—	(16,271,400)
Capital campaign expenditures	(2,188,300)	—	—	(2,188,300)
Other nonoperating expenses	(367,025)	—	—	(367,025)
Change in net assets from nonoperating activities	6,473,771	22,629,338	1,287,415	30,390,524
Change in net assets	2,582,698	25,991,652	1,287,415	29,861,765
Net assets at beginning of year	101,710,730	152,541,565	112,320,884	366,573,179
Net assets at end of year	\$ 104,293,428	178,533,217	113,608,299	366,573,179

See accompanying notes to financial statements.

SPELMAN COLLEGE

Statement of Activities

Year ended June 30, 2010

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	\$ 42,393,518	—	—	42,393,518
Less student aid	(13,933,066)	—	—	(13,933,066)
Tuition and fees, net	28,460,452	—	—	28,460,452
Government grants and contracts	579,091	8,066,263	—	8,645,354
Private gifts and grants	2,176,335	8,552,973	—	10,729,308
Investment income (note 3)	43,739	1,029	—	44,768
Realized and unrealized gains on investments (note 3)	2,252	—	—	2,252
Endowment spending in accordance with College's spending rule (note 3)	5,045,276	10,421,681	—	15,466,957
Sales and services of auxiliary enterprises	16,636,583	—	—	16,636,583
Other	919,347	—	—	919,347
Net assets released from restrictions (note 8)	27,413,980	(27,413,980)	—	—
Total operating revenues	81,277,055	(372,034)	—	80,905,021
Operating expenses (note 11):				
Instruction	24,133,176	—	—	24,133,176
Research	4,425,677	—	—	4,425,677
Public service	258,300	—	—	258,300
Academic support	7,042,415	—	—	7,042,415
Student services	11,005,443	—	—	11,005,443
Institutional support	22,870,407	—	—	22,870,407
Auxiliary enterprises	14,638,935	—	—	14,638,935
Total operating expenses	84,374,353	—	—	84,374,353
Change in net assets from operating activities	(3,097,298)	(372,034)	—	(3,469,332)
Nonoperating activities:				
Contributions	—	14,790	1,107,649	1,122,439
Reclassification of gift	—	(375,000)	375,000	—
Investment income (note 3)	390,708	2,172,364	—	2,563,072
Change in present value of split interest agreements	—	121,513	—	121,513
Realized and unrealized loss on investments (note 3)	8,595,923	14,026,301	9,103	22,631,327
Endowment spending in accordance with College's spending rule	(5,045,276)	(10,421,681)	—	(15,466,957)
Capital campaign expenditures	(2,017,937)	—	—	(2,017,937)
Other nonoperating expenses	(316,693)	—	—	(316,693)
Change in net assets from nonoperating activities	1,606,725	5,538,287	1,491,752	8,636,764
Change in net assets	(1,490,573)	5,166,253	1,491,752	5,167,432
Net assets at beginning of year	103,201,303	147,375,312	110,829,132	361,405,747
Net assets at end of year	\$ 101,710,730	152,541,565	112,320,884	366,573,179

See accompanying notes to financial statements.

SPELMAN COLLEGE

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 29,861,765	5,167,432
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	9,900,362	9,454,158
Amortization of bond issuance costs	74,109	72,461
Amortization of bond premium	(186,503)	(177,677)
In-kind contribution of property	(161,000)	—
Net realized and unrealized gains on investments	(43,412,927)	(22,633,579)
Private gifts and grants restricted for long-term investment	(3,773,152)	(4,402,707)
Decrease (increase) in student accounts receivable	6,318	(37,739)
Decrease in grants and other receivables	523,348	649,751
Decrease in contributions receivable	2,491,675	4,068,659
(Increase) decrease in other assets	(92,380)	347,800
Decrease in accounts payable and accrued expenses, and accrued compensation and related expenses	(442,560)	(286,416)
Decrease in deferred revenue	(64,592)	(12,497)
Net cash used in operating activities	(5,275,537)	(7,790,354)
Cash flows from investing activities:		
Purchases and acquisitions of property and equipment	(1,550,424)	(885,063)
Repayment of loans by students, net of disbursements and cancellations	145,152	238,307
Investment in joint venture	—	(148,688)
Proceeds from sales of investments	181,318,756	94,819,931
Purchases of investments	(169,614,544)	(82,079,580)
Net cash provided by investing activities	10,298,940	11,944,907
Cash flows from financing activities:		
Principal repayments on bonds and notes payable	(3,479,000)	(3,153,000)
Principal repayments under capital lease obligations	(180,524)	(130,082)
Increase in bond issuance costs	—	(63,380)
(Decrease) increase in advances from federal government	(33,858)	21,019
Proceeds from private gifts and grants restricted for long-term investment	3,773,152	4,402,707
Net cash provided by financing activities	79,770	1,077,264
Net increase in cash and cash equivalents	5,103,173	5,231,817
Cash and cash equivalents at beginning of year	9,617,138	4,385,321
Cash and cash equivalents at end of year	\$ 14,720,311	9,617,138
Supplemental disclosures:		
Equipment acquired under capital lease	\$ —	350,684
Cash paid for interest	4,804,108	4,885,666
Noncash land distribution from joint venture	—	9,131,551

See accompanying notes to financial statements.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

(a) General

Spelman College (the College) is a private, nonprofit institution of higher education located in Atlanta, Georgia. The College provides education and training services for students at the undergraduate level and performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations and governmental agencies.

(b) Basis of Presentation

The financial statements of the College have been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles.

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

Accordingly, the net assets of the College and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

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

Permanently restricted – Net assets subject to donor-imposed stipulations that these be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income and gains earned on the related investments for general or specific purposes.

Revenue from sources other than contributions is reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate net asset category. Contributions of assets other than cash and cash equivalents are recorded at their estimated fair value at the date of the gift, as determined by independent appraisal or other valuation methods as deemed appropriate by management. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue and classified in accordance with donor-imposed restrictions, if any, on the contributions.

Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired and placed in service.

(c) Investments

Investments consist of marketable securities, privately held limited partnerships and real estate.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

Marketable securities are stated at fair value based on quoted market prices. The net realized and unrealized gains (losses) on investments are reflected in the statements of activities. Realized and unrealized gains (losses) are allocated to net asset classes, dependent upon donor specifications.

Investments in private limited partnership interests are valued using the most current information provided by the general partner. The change in net assets related to limited partnership interests is presented as realized and unrealized gain and loss based upon the estimated fair value of each partnership as determined by the general partner. General partners typically value privately held companies at cost as adjusted based on recent arms' length transactions. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. General partners of funds invested in marketable securities provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. Investment managers are authorized to employ derivative instruments, including swaps, futures, forwards, and options. These derivatives are generally used for managing interest rate or foreign currency risk or to attain or hedge a specific financial market position. The College does not have direct investments in such instruments. Management reviews and evaluates valuation information provided by general partners and investment managers, and management believes such values are reasonable estimates of fair value.

The College's investments include various types of investment securities and investment vehicles. Investment securities are exposed to various risks, such as liquidity, interest rates, currency, market, and credit risks.

Liquidity risk represents the possibility that the College may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the College was forced to dispose of a liquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value.

The College invests in alternative investments, which can be highly illiquid. Under adverse market or economic condition, the secondary market for certain of these alternative investments could contract further. As a result, the College could find it more difficult to sell these securities or may only be able to sell the securities at prices lower than if such securities were widely traded. The College's interests in alternative investments are generally reported at the net asset value (NAV) reported by the fund managers, which is used a practical expedient to estimate the fair value of the College's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2011, the College had no plans or intentions to sell investments at amounts different from NAV.

The College holds investments denominated in currencies other than the U.S. dollar. Thus, there is exposure to currency risk because the value of the investments denominated in other currencies may fluctuate due to changes in currency exchange rates and this can have an adverse affect on the reported value of assets and liabilities denominated in currencies other than the U.S. dollar.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

The College's investment portfolio is subject to interest rate and credit risks for certain securities whose valuation would be impacted by changes in interest rates. The portfolios are also subject to the risk where the issuer of a security is not able to pay interest or repay principal when it is due.

The value of securities held by the College may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Those events impacting valuation may include (but may not be limited to) economic changes, market fluctuations, regulatory changes, global and practical instability, currency, interest rate, and commodity price fluctuations. The College attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the College's financial statements.

(d) *Property and Equipment*

Property and equipment are stated at cost at date of acquisition or at estimated fair value at date of donation, less accumulated depreciation.

Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. A summary of depreciable lives follows:

Land improvements	5 years
Buildings	40 years
Furniture and equipment	5 years
Investment in the Robert W. Woodruff library at the Atlanta University Center Consortium, Inc.	7 years

(e) *Advances from Federal Government for Student Loans*

The College owns one-tenth interest in the Federal Perkins Loans to Spelman students. The remaining nine-tenths is distributable to the federal government upon liquidation of the federal loan program and is recorded as a liability in the accompanying statements of financial position.

(f) *Income Tax Status*

The College is recognized as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3), whereby only unrelated business income, as defined by Section 512(a) of the Code, is subject to federal income tax.

(g) *Atlanta University Center Consortium, Inc.*

The College treats as expense an allocated share of expenditures made through Atlanta University Center Consortium, Inc., an affiliated organization, for the benefit of its four affiliated institutions.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(h) Cash Equivalents

Cash equivalents consist primarily of money market accounts, commercial paper, and any other short-term investments with original maturities of three months or less. Cash and cash equivalents that are part of the pooled investments are shown within investments as these funds are generally not used for daily operating needs.

(i) Use of Estimates

Management of the College has made certain estimates and assumptions relating to the reporting of the allowance for uncollectible student receivables and contributions receivables, useful lives of property and equipment, investments without readily determinable fair values, and accrued expenses to prepare the financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(j) Bond Issuance Costs

Bond issuance costs related to the registration and issuance of bonds are carried at cost, less accumulated amortization, and are being amortized over the life of the related bonds using the straight-line method.

(k) Conditional Asset Retirement Obligation

The College has identified asbestos and lead paint abatement as conditional asset retirement obligations. Asbestos and lead paint abatement cost were estimated using a per/square foot estimate. The asset retirement obligations are included with accounts payable and accrued expenses in the statements of financial position.

The following table presents the activity of the College's asset retirement obligations for the years ended June 30, 2011 and 2010:

	2011	2010
Balance at beginning of year	\$ 2,324,270	2,231,635
Accretion expense	96,265	92,635
Balance at end of year	\$ 2,420,535	2,324,270

(l) Recently Implemented Accounting Standards

In fiscal 2011, the College implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures* (Topic 820), *Improving Disclosures about Fair Value Measurements*, which amends Topic 820 and provides more robust disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(2) Contributions Receivable, Net

Contributions receivable as of June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 8,588,346	8,601,275
One year to five years	3,140,949	6,106,250
	<u>11,729,295</u>	<u>14,707,525</u>
Less allowance for uncollectible contributions	416,465	773,601
Less unamortized discount	849,124	978,543
	<u>\$ 10,463,706</u>	<u>12,955,381</u>

Contributions are discounted at rates ranging from 3.99% to 9.84% for the years ended June 30, 2011 and 2010, commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue and classified in accordance with donor-imposed restrictions, if any. The College allowance for uncollectible contributions is estimated by using past collections and contributions receivable as an indication of future collections. At June 30, 2011 and 2010 the two largest outstanding donor pledge balances represented 58% and 73%, respectively, of the College's gross contribution receivable.

(3) Investments

The fair value of investments is summarized as follows at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>	<u>2011 Unfunded capital commitments</u>
Short-term investments	\$ 9,491,065	11,493,620	—
U.S. equity	37,996,093	31,943,928	—
Non-U.S. equity	24,118,090	20,917,695	—
Marketable alternatives	63,632,132	58,429,863	—
Real assets	49,218,048	34,638,623	20,707,242
Private equity	110,925,385	105,418,135	36,582,721
Fixed income	31,548,097	32,378,331	224,785
	<u>\$ 326,928,910</u>	<u>295,220,195</u>	<u>57,514,748</u>
Total investments, at fair value			

The College has investments in certain partnerships, and is obligated under the related partnership agreements to invest additional capital amounts. The College estimates that the additional capital amounts will be paid over the next five years depending on timing of potential investment opportunities identified by investment fund managers.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

The following is a summary of the liquidation terms of investments as of June 30, 2011 and 2010:

	2011							Days notice
	Redemption period							
	Daily	Monthly	Quarterly	Semi- annually	Annually	Illiquid	Total	
Short-term investments (a) \$	9,491,065	—	—	—	—	—	9,491,065	1
U.S. equity (b)	—	20,015,343	10,579,235	—	—	7,401,515	37,996,093	1day-2 years
Non-U.S. equity (b)	8,031,772	—	11,455,008	4,631,310	—	—	24,118,090	60-120
Marketable alternatives (c)	—	16,538,685	26,913,793	—	20,179,654	—	63,632,132	30-90
Real assets (d)	—	—	6,176,123	—	6,891,868	36,150,057	49,218,048	5-90
Private equity (e)	—	—	—	—	—	110,925,385	110,925,385	—
Fixed income (f)	—	11,581,411	18,698,022	—	—	1,268,664	31,548,097	3-90
Total	\$ <u>17,522,837</u>	<u>48,135,439</u>	<u>73,822,181</u>	<u>4,631,310</u>	<u>27,071,522</u>	<u>155,745,621</u>	<u>326,928,910</u>	

	2010							Days notice
	Redemption period							
	Daily	Monthly	Quarterly	Semi- annually	Annually	Illiquid	Total	
Short-term investments (a) \$	11,493,620	—	—	—	—	—	11,493,620	1
U.S. equity (b)	4,059,561	19,291,101	8,593,266	—	—	—	31,943,928	1-90
Non-U.S. equity (b)	7,905,703	—	8,797,924	2,286,134	1,927,934	—	20,917,695	1-90
Marketable alternatives (c)	—	7,712,342	25,064,462	—	25,653,059	—	58,429,863	30-45
Real assets (d)	313,858	—	6,050,167	—	3,770,331	24,504,267	34,638,623	1-90
Private equity (e)	39,741	—	—	—	—	105,378,394	105,418,135	—
Fixed income (f)	—	12,236,700	—	—	18,488,242	1,653,389	32,378,331	3-90
Total	\$ <u>23,812,483</u>	<u>39,240,143</u>	<u>48,505,819</u>	<u>2,286,134</u>	<u>49,839,566</u>	<u>131,536,050</u>	<u>295,220,195</u>	

- (a) This category includes assets that are cash or readily convertible to cash, such as money market funds.
- (b) This category includes investments in funds that take long positions in publicly traded equity securities. About 58% of the investments are in U.S. companies and 42% are in non-U.S. companies. A range of styles, market caps, and geographic focuses is included. The public nature of the securities makes this category very liquid.
- (c) This category includes investments in hedge funds that take long and short positions in largely equity securities, credit securities and event driven situations. Managers vary in style, market cap focus, geographic focus, sectors of focus, and types of securities, with some having considerable flexibility in each of these areas. The funds also vary in net long/short positioning with most equity funds generally maintaining a low net and little or no leverage. Most credit funds generally maintain a moderate net long position and little or no leverage.
- (d) This category includes investments in real estate equity funds and commodity funds that take ownership of properties ranging from office, retail, multi-family, land, hotel, and various other commodities. These are investments that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 4-10 years. There are currently no

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

plans to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the manager.

- (e) This category includes investments in private equity funds that provide growth equity or take full ownership of the companies they invest. Private equity funds that take significant ownership positions in start up or early stage companies largely in the technology or healthcare spaces. These are private investments that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 4-8 years. There are currently no plans to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the manager.
- (f) This category includes investments in funds that take long positions in publicly traded fixed income securities. Derivatives may be used to replicate securities or change the positioning of the portfolio without the need to buy or sell securities. The public nature of the securities makes this category very liquid.

Included in the fair value of investments are approximately \$279,000,000 and \$242,000,000 at June 30, 2011 and 2010, respectively, of investments whose carrying values have been estimated by management in absence of readily determinable fair values. Management estimates are based upon information provided by general partners and investment managers. At June 30, 2011, the College did not have any investments with redemption lock up provisions.

The College's investment return for the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Operating realized and unrealized gains on investments	\$ 5,053	2,252
Nonoperating realized and unrealized gains on investments	<u>43,407,874</u>	<u>22,631,327</u>
Total realized and unrealized gains on investments	<u>43,412,927</u>	<u>22,633,579</u>
Operating investment income	31,143	44,768
Nonoperating investment income	<u>3,592,576</u>	<u>2,563,072</u>
Total investment income	<u>3,623,719</u>	<u>2,607,840</u>
Total investment return	<u>47,036,646</u>	<u>25,241,419</u>
Investment return designated for current operations and endowment spending:		
Operating endowment spending	16,271,400	15,466,957
Nonoperating endowment spending	<u>16,662</u>	<u>98,452</u>
	<u>16,288,062</u>	<u>15,565,409</u>
Investment return in excess of amounts designated for current operations and endowment spending	<u>\$ 30,748,584</u>	<u>9,676,010</u>

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

Investment management fees approximated \$1,693,000 and \$1,228,000 for the years ended June 30, 2011 and 2010, respectively.

(4) Endowment Net Assets

The College's endowment consists of approximately 245 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. 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.

(a) *Interpretation of Relevant Law*

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act), as adopted in Georgia, as providing among other things, expanded spending flexibility by allowing subject to a standard of prudence, the institution to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was previously not allowed. The College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulations is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

Endowment net assets consisted of the following at June 30, 2011 and 2010:

		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	(493,124)	163,191,077	113,608,299	276,306,252
Board-designated endowment funds		<u>55,979,498</u>	<u>—</u>	<u>—</u>	<u>55,979,498</u>
Total endowed net assets	\$	<u><u>55,486,374</u></u>	<u><u>163,191,077</u></u>	<u><u>113,608,299</u></u>	<u><u>332,285,750</u></u>
		2010			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	(1,219,563)	141,646,354	112,320,884	252,747,675
Board-designated endowment funds		<u>51,412,847</u>	<u>—</u>	<u>—</u>	<u>51,412,847</u>
Total endowed net assets	\$	<u><u>50,193,284</u></u>	<u><u>141,646,354</u></u>	<u><u>112,320,884</u></u>	<u><u>304,160,522</u></u>

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

Changes in endowment net assets for the years ended June 30, 2011 and 2010 were as follows:

	2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, July 1, 2010	\$ 50,193,284	141,646,354	112,320,884	304,160,522
Investment return:				
Investment income	584,561	3,008,015	—	3,592,576
Net appreciation	<u>13,199,262</u>	<u>30,202,674</u>	<u>5,938</u>	<u>43,407,874</u>
Total investment return	<u>13,783,823</u>	<u>33,210,689</u>	<u>5,938</u>	<u>47,000,450</u>
Contributions	—	—	1,281,477	1,281,477
Appropriation of endowment assets for expenditure	(4,754,727)	(11,533,335)	—	(16,288,062)
Appropriation of endowment assets for campaign support	(2,188,300)	—	—	(2,188,300)
Appropriations of endowment assets for support of investments office	(1,697,706)	—	—	(1,697,706)
Appropriation of endowment assets for program support	—	(110,478)	—	(110,478)
Transfer to create board designated funds	150,000	—	—	150,000
Transfer to annuity funds	<u>—</u>	<u>(22,153)</u>	<u>—</u>	<u>(22,153)</u>
Endowment net asset, June 30, 2011	<u><u>\$ 55,486,374</u></u>	<u><u>163,191,077</u></u>	<u><u>113,608,299</u></u>	<u><u>332,285,750</u></u>

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2009	\$ 48,673,635	135,904,926	110,829,132	295,407,693
Investment return:				
Investment income	390,708	2,171,271	—	2,561,979
Net appreciation	8,595,923	14,026,301	9,103	22,631,327
Total investment return	8,986,631	16,197,572	9,103	25,193,306
Contributions	—	—	1,107,649	1,107,649
Appropriation of endowment assets for expenditure	(5,045,276)	(10,520,133)	—	(15,565,409)
Appropriation of endowment assets for campaign support	(2,017,937)	—	—	(2,017,937)
Appropriations of endowment assets for support of investments office	(503,769)	—	—	(503,769)
Transfer to create board designated funds	100,000	—	—	100,000
Reclassification of expired annuity	—	(375,000)	375,000	—
Transfer from annuity funds	—	438,989	—	438,989
Endowment net asset, July 1, 2010	\$ 50,193,284	141,646,354	112,320,884	304,160,522

(b) 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 or the Act requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$493,124 and \$1,219,563 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 60% of the Russell 3000, 10% of the European and Far East (MSCI) Index, and 30% of the Barclays Aggregate Bond Index while assuming a moderate level of investment risk. The College expects its endowment funds, over three to five years, to provide an average annual real rate of return of approximately 5% – 6% annually. Actual returns in any given year may vary from this amount.

(d) *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 a diversified asset allocation that places emphasis on investments in equities, fixed income, hedge funds, and alternative assets (distressed, real estate, venture capital and private equities) to achieve its long-term objectives within prudent risk parameters.

(e) *Spending Policy*

The College utilizes the total return concept (income yield and appreciation) in the management of its endowment. The College has implemented a spending policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. In accordance with the College's policy, a predetermined endowment spending rate, consistent with the College's total return objective, has been established. Should the actual return be insufficient to support this policy, the balance is provided from net accumulated appreciation. Should the return exceed the amounts withdrawn in accordance with the spending policy, the balance is reinvested in the endowment.

The College has a policy of appropriating for distribution each year 5.25% of a weighted average of its endowment funds values as of September 30 for each of the four fiscal years preceding the fiscal years in which the distribution is planned. In establishing these policies, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return. The actual spending rate for the years ended June 30, 2011 and 2010, calculated as a percentage of the fair value of the endowment as of the beginning of the year, was approximately 6.8% and 6.3%, respectively.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(5) Property and Equipment

Property and equipment as of June 30, 2011 and 2010 consist of the following:

	2011	2010
Land	\$ 14,687,723	14,687,723
Land improvements	21,292,806	20,974,423
Buildings	174,770,737	174,770,737
Furniture and equipment	23,403,018	22,764,781
Robert W. Woodruff Library at the Atlanta University Center Consortium, Inc.	547,000	547,000
Construction in progress	1,993,283	1,399,479
	236,694,567	235,144,143
Less accumulated depreciation and amortization	82,484,230	72,583,868
	\$ 154,210,337	162,560,275

Depreciation expense totaled \$9,900,362 and \$9,454,158 in 2011 and 2010, respectively.

(6) Bonds and Notes Payable

Bonds and notes payable as of June 30, 2011 and 2010 consist of the following:

	Interest rate	Maturity (serially)	Original issue	Outstanding as of June 30	
				2011	2010
Spelman College Dormitory and Student Union Bonds of 1973	3.0%	2012	\$ 2,697,000	—	232,000
Spelman College Academic Facilities Bonds of 1973	3.0	2013	203,000	—	27,000
Private Colleges and Universities: Authority Revenue Bonds – 2003 Series	2.0 – 5.25	2022	29,780,000	23,470,000	24,345,000
Development Authority of Fulton County: Adjustable Rate Demand: Revenue Bonds of 1996	1.80	2016	3,000,000	1,100,000	1,300,000
Revenue Bonds of 1999	1.80	2019	8,000,000	5,700,000	6,000,000
Fixed Rate: Revenue Bonds of 2007	3.6 – 5.0	2032	34,760,000	30,130,000	31,350,000
Revenue Bonds of 2007	3.6 – 5.0	2032	28,745,000	28,745,000	28,745,000
				89,145,000	91,999,000
Unamortized premium				3,505,677	3,692,180
Total bonds payable				92,650,677	95,691,180

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

	<u>Interest rate</u>	<u>Maturity (serially)</u>	<u>Original issue</u>	<u>Outstanding as of June 30</u>	
				<u>2011</u>	<u>2010</u>
2005 note payable to commercial bank (converted to 2010 bank note during February 2010)	3.00	2015	5,000,000	\$ 3,375,000	3,625,000
2008 note payable to commercial bank	6.15	2013	7,500,000	<u>6,562,500</u>	<u>6,937,500</u>
Total bonds and notes payable				<u>\$ 102,588,177</u>	<u>106,253,680</u>

The Dormitory and Student Union and Academic Facilities bonds were paid in full on October 1, 2010.

Under the terms of the bond financing documents related thereto, the Revenue Bonds of 1996 and 1999 are general obligations of the College. The bonds were secured by irrevocable, direct pay letters of credit issued by a commercial bank from the date of the original issuance of the bonds until September 21, 2009. On that date, the bond financing documents were amended to include a tax-exempt bank qualified option. This allowed the bonds to be purchased by the bank which previously issued the letter of credit. The interest rate on the bonds changed to 0.67% of the sum of LIBOR plus 2.5%. The College continues to pledge "Unrestricted College Revenue" as security for its repayment obligations under the bonds. The maturity dates of the bonds did not change.

Under the terms of the agreements related thereto, the Revenue Bonds of 2003 (the 2003 bonds) are unsecured general obligations of the College. The proceeds of the 2003 bonds were for the purpose of financing or refinancing all or a portion of various projects and advance refunding \$5,700,000 of the 1994 bonds originally issued in the aggregate principal amount of \$22,640,000. Approximately \$6,213,000 of the proceeds from the 2003 bonds was used to redeem \$5,700,000 of the 1994 bonds on June 1, 2004.

Under the terms of the agreements related thereto, the 2007 bonds are unsecured general obligations of the College. The proceeds of the 2007 bonds were for the purpose of financing all or a portion of various projects, as well as refunding the 1994 bonds, and repayment in full of the 2004 note payable. Approximately \$9,578,000 of the proceeds from the 2007 bonds were used in the refunding of the 1994 bonds and the repayment of the 2004 note payable.

The College had an unsecured line of credit of \$5,000,000, which was converted to an unsecured note on February 28, 2005. The note requires quarterly principal payments of \$62,500, plus interest at LIBOR plus 0.325%, beginning March 31, 2005. The final payment of \$3,875,000, plus accrued and unpaid interest and any other amounts owed, was due and payable on February 28, 2010. On February 28, 2010, the unpaid principal balance of \$3,875,000 was converted into a new note. The new note requires quarterly payments of \$62,500 plus interest, beginning March 31, 2010. The note bears interest at the rate of LIBOR plus 2.25%, and is subject to a floor of 3%. The final payment of \$2,625,000, plus accrued and unpaid interest and any other amounts owed, is due February 28, 2015.

On October 28, 2008 the College borrowed \$7,500,000 from a commercial bank in order to complete various construction projects. The note is unsecured and bears interest at a fixed rate of 6.15%. The note

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

requires quarterly payments of \$93,750 plus interest, beginning March 31, 2009. The final payment of \$5,812,500 plus accrued and unpaid interest and any other amounts owed, is due November 1, 2013.

The maturity schedule for bonds and notes payable as of June 30, 2011 is as follows:

	Year ending June 30						Total
	2012	2013	2014	2015	2016	Thereafter	
Revenue Bonds of 1996	\$ 200,000	200,000	200,000	200,000	300,000	—	1,100,000
Revenue Bonds of 1999	300,000	400,000	400,000	500,000	500,000	3,600,000	5,700,000
Revenue Bonds of 2003	910,000	990,000	1,500,000	1,995,000	2,015,000	16,060,000	23,470,000
Revenue Bonds of 2007	1,275,000	1,315,000	920,000	495,000	515,000	54,355,000	58,875,000
2005 bank note/2010 bank note	250,000	250,000	250,000	2,625,000	—	—	3,375,000
2008 bank note	375,000	375,000	5,812,500	—	—	—	6,562,500
	<u>\$ 3,310,000</u>	<u>3,530,000</u>	<u>9,082,500</u>	<u>5,815,000</u>	<u>3,330,000</u>	<u>74,015,000</u>	99,082,500
Unamortized premium							<u>3,505,677</u>
							<u>\$ 102,588,177</u>

The terms of the bonds and notes provide for certain nonfinancial covenants. The College's management believes it is in compliance with these requirements at June 30, 2011.

(7) Interest Expense

Interest expense related to bonds and notes payable and the obligation under capital lease approximated \$4,608,000 and \$4,697,000 for the years ended June 30, 2011 and 2010, respectively.

(8) Net Assets Released from Restrictions

Net assets were released from donor-imposed temporary restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Scholarships and fellowships	\$ 11,301,129	11,371,581
Instruction	6,433,750	6,376,290
Research	2,973,837	3,708,084
Public service	45,647	84,762
Academic support	751,899	822,781
Student services	835,676	744,151
Institutional support	591,596	854,111
Auxiliary enterprises	22,470	263,249
Other	3,177,621	3,188,971
	<u>\$ 26,133,625</u>	<u>27,413,980</u>

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(9) Net Assets

Temporarily restricted net assets as of June 30, 2011 and 2010 were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Scholarships and fellowships	\$ 83,303,913	69,577,316
Programs and other operating purposes	92,421,346	81,092,585
Purchase of property and equipment	2,807,958	1,871,664
	<u>\$ 178,533,217</u>	<u>152,541,565</u>

Permanently restricted net assets totaling \$113,608,299 and \$112,320,884 as of June 30, 2011 and 2010, respectively, consist of endowment investments whose income and net realized and unrealized gains are available for the College's operations, scholarships, and various academic programs.

(10) Fair Value

The College's estimates of fair value for financial assets and liabilities are based on the framework established in Topic 820. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 inputs – Quoted prices for instruments that are identical or similar in markets that are not active and model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.
- Level 3 inputs – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

As of June 30, 2011, the College has approximately \$279,000,000 of investments that fall into Levels 2 and 3 and are reported at estimated fair value. Unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value, the College has applied a practical expedient and concluded that the net asset value reported by the underlying fund approximates the fair value of these investments.

While the College's investment in these funds is classified as Level 2 or 3, the underlying investments of the fund may be classified Level 1 in the fund itself. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment to the investor and does not necessarily correspond to the perceived risk of that investment. The funds and the College use inputs in applying various valuation techniques that are assumptions which market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples, discount rates and other factors.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

Underlying fund investments made directly by the College whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include actively traded common and preferred stock, U.S. government fixed income instruments and non-U.S. government fixed income instruments. Level 1 investments may also include listed mutual funds, exchange traded funds (ETFs) and money market funds.

Investments that trade in markets that are considered to be active, but are based on dealer quotations or alternative pricing sources supported by observable inputs or investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. Alternative pricing sources include quotations from market participants and pricing models which are based on accepted industry modeling techniques. These investments include U.S. investment-grade and below investment-grade debt securities, international corporate bonds, mortgage-backed securities, asset-backed securities, senior loans and bank loans, most derivative contracts other than futures, and commingled fund investments that would otherwise be classified Level 3 but for which the College had the ability to redeem at net asset value on or within 90 days after June 30, 2011.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include limited partnerships, private placement investments, and commingled fund investments. Inputs used may include the original transaction price, recent transactions in the same or similar market, completed or pending third-party transactions in the underlying investment or comparable issuers, and subsequent rounds of financing. When observable prices are not available these investments are valued using one or more valuation techniques described below.

- **Market Approach:** This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- **Income Approach:** This approach determines a valuation by discounting future cash flows.
- **Cost Approach:** This approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

The hierarchy requires the use of observable market data when available. As required by Topic 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The following is a summary of the levels within the fair value hierarchy for assets as of June 30, 2011 and 2010:

June 30, 2011				
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 14,720,311	—	—	14,720,311
Investments:				
Short-term investments	9,491,065	—	—	9,491,065
U.S. equity	22,874,574	7,720,004	7,401,515	37,996,093
Non-U.S. equity	697,452	—	23,420,638	24,118,090
Marketable alternatives	8,892,703	48,281,079	6,458,350	63,632,132
Real assets	6,176,123	3,114,018	39,927,907	49,218,048
Private equity	—	—	110,925,385	110,925,385
Fixed income	—	30,279,433	1,268,664	31,548,097
Total investments	48,131,917	89,394,534	189,402,459	326,928,910
Total	\$ 62,852,228	89,394,534	189,402,459	341,649,221

June 30, 2010				
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 9,617,138	—	—	9,617,138
Investments:				
Short-term investments	11,493,620	—	—	11,493,620
U.S. equity	26,123,649	5,820,279	—	31,943,928
Non-U.S. equity	1,927,934	824,066	18,165,695	20,917,695
Marketable alternatives	7,712,342	37,930,790	12,786,731	58,429,863
Real assets	6,364,025	2,452,210	25,822,388	34,638,623
Private equity	39,741	—	105,378,394	105,418,135
Fixed income	—	12,236,700	20,141,631	32,378,331
Total investments	53,661,311	59,264,045	182,294,839	295,220,195
Total	\$ 63,278,449	59,264,045	182,294,839	304,837,333

The carrying amounts of cash, cash equivalents, student receivable, grants and other receivables approximate fair value because of the terms and relatively short maturity of these financial instruments. Contributions receivable and annuity and other split-interest obligations carrying amounts approximate fair value because these instruments are recorded at estimated net present value of future cash flows determined as of the date of the gift. Investments are reported at fair value as of the date of the financial statements.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

A reasonable estimate of the fair value of advances from the federal government and student loans could not be made because the notes receivable are not salable and can only be assigned to the federal government or its designees. The carrying value of institutional student notes receivable approximates fair value.

The carrying amounts of accounts payable, accrued payroll and employee withholdings, and other related accruals approximate fair value because of the relatively short maturity of these financial instruments.

The carrying amount of notes and bonds payable with variable interest rates approximates fair value because the variable rates reflect current market rates for bonds with similar maturities and credit quality. The fair value of notes and bonds payable with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities. The estimated fair value of bonds and notes payable at June 30, 2011 and 2010 approximated \$103,200,000 and \$107,200,000, respectively.

The following tables present additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that were classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category in the table below may include changes in fair value that were attributable to both observable and unobservable inputs.

Level 3 roll forward	2011						
	U.S. equity	Non-U.S. equity	Marketable alternatives	Real assets	Private equity	Fixed income	Total
Beginning value as of July 1, 2010	\$ —	18,165,695	12,786,731	25,822,388	105,378,394	20,141,631	182,294,839
Acquisitions	—	3,656,643	—	10,363,297	19,339,643	82,006	33,441,589
Dispositions	(23,343)	(1,675,498)	(508,418)	(965,224)	(13,619,964)	(430,514)	(17,222,961)
Transfers from Level 3	—	—	(6,936,971)	—	—	(18,488,242)	(25,425,213)
Transfer to Level 3	5,848,855	—	—	—	—	—	5,848,855
Net realized and unrealized gains (losses)	<u>1,576,003</u>	<u>3,273,798</u>	<u>1,117,008</u>	<u>4,707,446</u>	<u>(172,688)</u>	<u>(36,217)</u>	<u>10,465,350</u>
Fair value at June 30, 2011	<u>\$ 7,401,515</u>	<u>23,420,638</u>	<u>6,458,350</u>	<u>39,927,907</u>	<u>110,925,385</u>	<u>1,268,664</u>	<u>189,402,459</u>
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30, 2011	<u>\$ 1,576,003</u>	<u>9,376,597</u>	<u>6,458,350</u>	<u>(551,740)</u>	<u>(5,692,677)</u>	<u>(581,916)</u>	<u>10,584,617</u>

During 2011, two funds changed their terms from an annual redemption period to redemption periods of less than 90 days and were transferred from Level 3 to Level 2. During 2011, one fund changed the terms from a quarterly redemption period to a two year redemption period and was transferred from Level 1 to Level 3.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

Level 3 roll forward	2010						Total
	U.S. equity	Non-U.S. equity	Marketable alternatives	Real assets	Private equity	Fixed income	
Beginning value as of July 1, 2009	\$ —	14,662,378	13,854,744	23,208,501	100,696,554	2,082,782	154,504,959
Acquisitions	—	151,605	—	3,705,291	12,414,839	71,559	16,343,294
Dispositions	—	(613,722)	—	(1,164,802)	(9,974,907)	(6,217,973)	(17,971,404)
Transfer to Level 3	—	—	—	3,780,610	—	20,720,150	24,500,760
Net realized and unrealized gains (losses)	—	3,965,434	(1,068,013)	(3,707,212)	2,241,908	3,485,113	4,917,230
Fair value at June 30, 2010	\$ —	18,165,695	12,786,731	25,822,388	105,378,394	20,141,631	182,294,839
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30, 2010	\$ —	6,102,799	5,421,007	(4,305,001)	(7,197,835)	11,942,543	11,963,513

(11) Operating Expenses

Expenses are reported in the accompanying statements of activities in categories recommended by the National Association of College and University Business Officers. The College's primary program service is instruction. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of this primary program service. Institutional support includes fund-raising expenses approximating \$3,399,000 and \$3,307,000 for the years ended June 30, 2011 and 2010, respectively.

Operating expenses classified by natural type for the years ended June 30, 2011 and 2010 were as follows:

	2011	2010
Salaries and wages	\$ 34,081,284	33,230,873
Fringe benefits	8,723,630	8,483,902
Depreciation	9,900,362	9,454,158
Interest on indebtedness	4,607,936	4,696,949
Other expenses	28,845,718	28,508,471
Total operating expenses	\$ 86,158,930	84,374,353

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

The College allocates operation and maintenance of plant, interest and depreciation to the program and support expenses reported in the accompanying statement of activities based upon various methods. The following table reports the amount of these expenses included in the accompanying statement of activities for the year ended June 30, 2011 and 2010:

Functional category	2011				
	Direct expenses	Operation and maintenance of plant	Interest	Depreciation	Total expenses
Instruction	\$ 20,805,252	3,190,270	—	1,622,520	25,618,042
Research	3,615,111	—	—	228,981	3,844,092
Public service	213,957	—	—	—	213,957
Academic support	6,854,751	260,909	—	230,514	7,346,174
Student services	7,838,884	1,178,065	—	1,744,040	10,760,989
Institutional support	16,458,016	1,289,872	1,821,927	4,294,039	23,863,854
Auxiliary enterprises	9,677,187	268,358	2,786,009	1,780,268	14,511,822
	65,463,158	6,187,474	4,607,936	9,900,362	86,158,930
Operation and maintenance of plant	6,187,474	(6,187,474)	—	—	—
Interest	4,607,936	—	(4,607,936)	—	—
Depreciation	9,900,362	—	—	(9,900,362)	—
	\$ 86,158,930	—	—	—	86,158,930

Functional category	2010				
	Direct expenses	Operation and maintenance of plant	Interest	Depreciation	Total expenses
Instruction	\$ 19,066,539	3,352,113	—	1,714,524	24,133,176
Research	4,280,860	—	—	144,817	4,425,677
Public service	258,300	—	—	—	258,300
Academic support	6,528,105	261,937	—	252,373	7,042,415
Student services	7,967,206	1,242,412	—	1,795,825	11,005,443
Institutional support	15,924,475	849,382	1,826,204	4,270,346	22,870,407
Auxiliary enterprises	10,143,730	348,187	2,870,745	1,276,273	14,638,935
	64,169,215	6,054,031	4,696,949	9,454,158	84,374,353
Operation and maintenance of plant	6,054,031	(6,054,031)	—	—	—
Interest	4,696,949	—	(4,696,949)	—	—
Depreciation	9,454,158	—	—	(9,454,158)	—
	\$ 84,374,353	—	—	—	84,374,353

(12) Pension Plan

The College has a defined contribution retirement plan with Teacher's Insurance and Annuity Association and College Retirement Equities Fund, which covers substantially all full-time employees at time of

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

employment. Employees are fully vested in the College's contributions after completing three full years of service.

Total pension expense under this plan approximated \$1,449,000 and \$1,369,000 for the years ended June 30, 2011 and 2010, respectively.

(13) Commitments and Contingencies

(a) Federal Compliance Audits

Certain federally funded financial aid programs are routinely subject to compliance audit. The reports on the examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the College, are required to be submitted to both the College and the U.S. Department of Education. Such agency has the authority to determine liabilities, as well as to limit, suspend, or terminate federal student aid programs.

These audits could result in claims against the resources of the College. No provision has been recorded for any liabilities which may arise from such audits, since the amounts, if any, cannot be determined at this date. Management believes that any such amounts would not be material to the financial statements.

(b) Litigation

The College is a defendant in various litigation considered to be in the normal course of business. Although the final results of any litigation cannot be predicted with certainty, the College believes the outcome of pending litigation will not have a material adverse effect on its financial position, changes in net assets, or cash flows.

(c) Operating Leases

The College has several noncancelable operating leases for equipment with expiration dates through 2016.

Future minimum lease payments for years ending June 30 are as follows:

2012	\$	506,000
2013		500,000
2014		400,000
2015		248,000
2016		61,000
	\$	<u>1,715,000</u>

Rent expense related to noncancelable operating leases with terms in excess of one year approximated \$704,000 and \$553,000 for the years ended June 30, 2011 and 2010, respectively.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2011 and 2010

(d) Capital Leases

Assets leased by the College under a capital lease at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Telephone equipment	\$ 932,764	932,764
Less accumulated amortization	<u>(454,453)</u>	<u>(267,900)</u>
	<u>\$ 478,311</u>	<u>664,864</u>

The following is a schedule by year of future minimum lease payments under these capital leases, together with the present value of the minimum lease payments as of June 30, 2011:

Year ending June 30:		
2012	\$	210,420
2013		210,420
2014		88,560
2015		51,654
Less amounts representing interest		<u>(36,167)</u>
Present value of minimum lease payments	\$	<u>524,887</u>

(14) Subsequent Events

The College evaluated subsequent events from the balance sheet date of June 30, 2011 through October 24, 2011, which is the date the College's financial statements were available to be issued and determined that there were no significant subsequent events requiring disclosure, other than as follows:

During September 2011, the College entered into a loan agreement with a manufacturer for approximately \$1,282,000 to finance certain equipment over a 6 year period with no interest and annual payments of \$214,000.