



UNITY COLLEGE

FINANCIAL STATEMENTS

June 30, 2013

With Comparative Totals For June 30, 2012

With Independent Auditor's Report

UNITY COLLEGE
FINANCIAL STATEMENTS
June 30, 2013

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 20
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Unity College

Report on the Financial Statements

We have audited the accompanying financial statements of Unity College (the College), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the College's 2012 financial statements and, in our report dated September 19, 2012, we expressed an unqualified opinion on those 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 U.S. generally accepted accounting principles; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 auditor's 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 Unity College as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the College taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information in that schedule has been subjected to the audit procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
September 12, 2013

UNITY COLLEGE

Statement of Financial Position

**June 30, 2013
(With Comparative Totals for June 30, 2012)**

ASSETS

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents (Note 15)	\$ 3,473,323	\$ 4,119,549
Inventories and prepaid expenses	139,526	155,684
Accounts and interest receivable (net of allowance for doubtful accounts of \$17,933 in 2013 and \$17,467 in 2012)	113,186	77,369
Contributions and grants receivable (Note 13)	119,747	147,226
Intermediate-term investments (Notes 2 and 18)	4,642,725	4,003,157
Gift of future interest (Notes 7 and 18)	59,897	59,596
Loans receivable, students (net of allowance for doubtful accounts of \$15,000 in 2013 and 2012) (Note 11)	40,598	43,710
Land, buildings and equipment, net of accumulated depreciation (Notes 8, 9 and 16)	9,532,690	9,083,091
Long-term investments (Notes 2 and 18)	<u>14,085,286</u>	<u>13,157,182</u>
Total assets	<u>\$ 32,206,978</u>	<u>\$ 30,846,564</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 356,850	\$ 128,738
Student deposits	352,688	533,847
Accrued liabilities	555,421	607,938
Asset retirement obligation (Note 16)	135,475	135,475
Refundable advances under federal revolving loan program (Note 11)	33,946	38,250
Long-term debt (Notes 8 and 15)	<u>2,672,257</u>	<u>2,800,258</u>
Total liabilities	<u>4,106,637</u>	<u>4,244,506</u>
Commitments and contingencies (Notes 9, 10, 12 and 16)		
Net assets		
Unrestricted (Notes 2 and 6)	14,337,762	13,580,326
Temporarily restricted (Notes 2, 3 and 9)	2,135,283	1,513,357
Permanently restricted (Notes 2, 4 and 9)	<u>11,627,296</u>	<u>11,508,375</u>
Total net assets	<u>28,100,341</u>	<u>26,602,058</u>
Total liabilities and net assets	<u>\$ 32,206,978</u>	<u>\$ 30,846,564</u>

The accompanying notes are an integral part of these financial statements.

UNITY COLLEGE

Statement of Activities

**Year Ended June 30, 2013
(With Comparative Totals for the Year Ended June 30, 2012)**

	<u>2013</u>			<u>2012</u> <u>Total</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		<u>Total</u>
Revenues, gains and other support					
Tuition and fees	\$ 12,602,111	\$ -	\$ -	\$ 12,602,111	\$ 13,126,687
Less institutional financial aid	<u>(4,031,238)</u>	<u>-</u>	<u>-</u>	<u>(4,031,238)</u>	<u>(4,045,863)</u>
Net tuition and fees	8,570,873	-	-	8,570,873	9,080,824
Private gifts, grants and other support (Note 14)	204,139	254,815	117,168	576,122	10,197,085
Auxiliary enterprises and other	3,457,818	-	-	3,457,818	3,461,611
Investment return (Note 2)	230,731	904,240	1,450	1,136,421	518,258
Federal and state grants	-	476,805	-	476,805	505,362
Change in value of gift of future interest (Notes 7 and 18)	-	-	303	303	2,427
Net assets released from restrictions (Note 5)	<u>1,013,934</u>	<u>(1,013,934)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>13,477,495</u>	<u>621,926</u>	<u>118,921</u>	<u>14,218,342</u>	<u>23,765,567</u>
Expenses (Note 10)					
Instructional	3,765,459	-	-	3,765,459	3,687,524
Academic support	979,449	-	-	979,449	1,031,025
Student services	2,220,684	-	-	2,220,684	2,215,326
Institutional support (Notes 8 and 17)	2,864,314	-	-	2,864,314	2,773,803
Operations and maintenance	1,170,481	-	-	1,170,481	1,094,236
Scholarships and fellowships	96,968	-	-	96,968	108,321
Auxiliary enterprises	<u>1,622,704</u>	<u>-</u>	<u>-</u>	<u>1,622,704</u>	<u>1,640,970</u>
Total expenses	<u>12,720,059</u>	<u>-</u>	<u>-</u>	<u>12,720,059</u>	<u>12,551,205</u>
Increase in net assets	757,436	621,926	118,921	1,498,283	11,214,362
Net assets, beginning of year	<u>13,580,326</u>	<u>1,513,357</u>	<u>11,508,375</u>	<u>26,602,058</u>	<u>15,387,696</u>
Net assets, end of year	<u>\$ 14,337,762</u>	<u>\$ 2,135,283</u>	<u>\$ 11,627,296</u>	<u>\$ 28,100,341</u>	<u>\$ 26,602,058</u>

The accompanying notes are an integral part of these financial statements.

UNITY COLLEGE

Statement of Cash Flows

Year Ended June 30, 2013

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

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Increase in net assets	\$ 1,498,283	\$ 11,214,362
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	888,723	839,229
Loss on disposal of property and equipment	935	406
Decrease in allowance for uncollectible pledges	-	(10,000)
Net gain on intermediate-term investments	(4,119)	(24,556)
Noncash contribution of securities	(38,992)	-
Net gain on long-term investments	(859,323)	(248,188)
Change in value of gift of future interest	(302)	(2,427)
Contributions and investment income restricted for long-term purposes	(135,468)	(10,064,090)
Decrease (increase) in		
Accounts and interest receivable	(35,817)	84,858
Inventory and prepaid expenses	16,159	34,462
Contributions and grants receivable	27,480	72,502
Student loans receivable	3,112	11,645
Increase (decrease) in		
Accounts payable for operating activities	21,043	(21,430)
Student deposits	(181,159)	99,439
Accrued liabilities and refundable advances	(56,821)	124,556
Net cash provided by operating activities	<u>1,143,734</u>	<u>2,110,768</u>
Cash flows from investing activities		
Purchase of land, buildings and equipment	(1,132,189)	(1,340,834)
Purchase of long-term investments	(8,171,779)	(15,341,001)
Proceeds from sale of long-term investments	8,142,276	5,236,821
Purchase of intermediate-term investments	(1,323,043)	(6,862,205)
Proceeds from sale of intermediate-term investments	<u>687,308</u>	<u>6,159,490</u>
Net cash used by investing activities	<u>(1,797,427)</u>	<u>(12,147,729)</u>
Cash flows from financing activities		
Proceeds from contributions and investment income restricted for long-term purposes	135,468	10,098,937
Proceeds from long-term borrowings	-	640,000
Principal payments on long-term debt	(128,001)	(110,018)
Net cash provided by financing activities	<u>7,467</u>	<u>10,628,919</u>
Net (decrease) increase in cash and cash equivalents	(646,226)	591,958
Cash and cash equivalents, beginning of year	<u>4,119,549</u>	<u>3,527,591</u>
Cash and cash equivalents, end of year	<u>\$ 3,473,323</u>	<u>\$ 4,119,549</u>
Supplemental disclosure		
Cash and cash equivalents	\$ 3,473,323	\$ 4,119,549
Intermediate-term investments	<u>4,642,725</u>	<u>4,003,157</u>
	<u>\$ 8,116,048</u>	<u>\$ 8,122,706</u>

The accompanying notes are an integral part of these financial statements.

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

Nature of Activities

Unity College (the College) is a small, private college in rural Maine that provides dedicated, engaged students with a liberal arts education that emphasizes the environment and natural resources. Graduates of the College are prepared to be environmental stewards, effective leaders and responsible citizens through active learning experiences within a supportive community.

1. Summary of Significant Accounting Policies

Reporting Standard

The College's financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under ASC Topic 958, all not-for-profit organizations are required to provide a statement of financial position, a statement of activities and a statement of cash flows. ASC Topic 958 requires reporting amounts for an organization's total assets, liabilities and net assets in a statement of financial position; reporting the change in an organization's net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows.

ASC Topic 958 also requires classification of an organization's net assets and its revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the College's June 30, 2012 financial statements, from which the summarized information was derived.

Restricted and Unrestricted Support

In accordance with ASC Topic 958, the College reports contributions of cash or other assets, including unconditional promises to give, in the statement of activities when the cash, unconditional promise, or other assets are received. Unconditional promises to give are reported at their fair value, and an allowance for uncollectible promises is subsequently established when appropriate. Conditional promises to give are reported in the statement of activities when the conditions are met.

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

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

The College reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained or the manner of their disposition, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The College reports expirations of continuing donor restrictions regarding use or disposition of long-lived assets over the assets' expected useful lives.

The College reports grants from federal and state granting authorities as restricted support when awarded. Upon expenditure of funds as stipulated by the terms of the underlying grants, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

All liquid investments with an original maturity of three months or less, other than those held by custodians as part of the investment portfolio, are considered to be cash equivalents.

The College maintains its cash and certificates of deposit in bank deposit accounts which, at times, may exceed federally insured limits. The College has not experienced any losses in such accounts. The College believes it is not exposed to any significant risk with respect to these accounts.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loans and Accounts Receivable

Loans and accounts receivable are stated at the amount the College expects to collect from outstanding balances. The College provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the College has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to loans or accounts receivable. Credit is extended without collateral.

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

Land, Buildings and Equipment

Land, buildings and equipment are stated at construction cost, acquisition cost, or fair value at dates of gift, less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the assets. The College capitalizes assets with a cost of \$1,000 or greater and an estimated useful life greater than one year. Following is a summary of estimated useful lives by asset category:

	<u>Estimated Useful Lives (Years)</u>
Buildings and improvements	7 - 30
Land improvements	7
Furniture and equipment	3 - 5
Library collection	7
Vehicles	5
Other	7

Investments

Investments are carried at fair value. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The College is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, the College has considered transactions or events occurring through September 12, 2013, which was the date that the financial statements were available to be issued.

UNITY COLLEGE

Notes to Financial Statements

**June 30, 2013
(With Comparative Totals for June 30, 2012)**

2. Investments

The fair values of investments at June 30 were as follows:

	<u>2013</u>	<u>2012</u>
<u>Intermediate-term investments</u>		
Certificates of deposit	\$ 2,975,409	\$ 2,327,428
Fixed income funds	503,743	1,005,250
U.S. Government and agencies	703,512	200,532
Common stock - packaging and containers	-	3,449
Corporate bonds	<u>460,061</u>	<u>466,498</u>
	<u>\$ 4,642,725</u>	<u>\$ 4,003,157</u>
<u>Long-term investments</u>		
Cash and money market funds	\$ 665,175	\$ 521,425
U.S. Government and agencies	-	759,338
Corporate bonds	1,385,175	687,390
Fixed income funds	3,237,679	3,263,052
International equity funds	2,285,526	2,050,593
Municipal bonds	150,000	400,736
Equity mutual funds		
Technology	1,285,803	1,411,770
Health care	1,102,117	993,468
Financials	1,224,574	732,029
Industrials	612,287	418,302
Consumer discretionary	979,659	679,741
Basic materials	61,229	156,863
Consumer staples	489,830	418,302
Utility	61,229	52,288
Energy	183,686	104,576
Telecommunications	122,457	261,439
Preferred stock	<u>238,860</u>	<u>245,870</u>
	<u>\$ 14,085,286</u>	<u>\$ 13,157,182</u>

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

Investment return is composed of the following:

	<u>2013</u>	<u>2012</u>
Investment income	\$ 272,979	\$ 245,514
Net gains	<u>863,442</u>	<u>272,744</u>
	<u>\$ 1,136,421</u>	<u>\$ 518,258</u>

The composition of endowment net assets, reported as long-term investments, by type of fund as of June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (13,940)	\$ 1,066,081	\$ 11,116,797	\$ 12,168,938
Board-designated endowment funds	<u>1,916,348</u>	<u>-</u>	<u>-</u>	<u>1,916,348</u>
	<u>\$ 1,902,408</u>	<u>\$ 1,066,081</u>	<u>\$ 11,116,797</u>	<u>\$ 14,085,286</u>

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,738,230	\$ 420,773	\$ 10,998,179	\$ 13,157,182
Investment return				
Investment income	35,888	189,642	302	225,832
Net realized gain on investments	48,985	258,851	412	308,248
Net appreciation of investments	<u>87,573</u>	<u>462,765</u>	<u>736</u>	<u>551,074</u>
Total investment return	172,446	911,258	1,450	1,085,154
Contributions	30,000	-	117,168	147,168
Appropriation of endowment assets for expenditure	<u>(38,268)</u>	<u>(265,950)</u>	<u>-</u>	<u>(304,218)</u>
Endowment net assets, end of year	<u>\$ 1,902,408</u>	<u>\$ 1,066,081</u>	<u>\$ 11,116,797</u>	<u>\$ 14,085,286</u>

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

The composition of endowment net assets, reported as long-term investments, by type of fund as of June 30, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (32,591)	\$ 420,773	\$ 10,998,179	\$ 11,386,361
Board-designated endowment funds	<u>1,770,821</u>	<u>-</u>	<u>-</u>	<u>1,770,821</u>
	<u>\$ 1,738,230</u>	<u>\$ 420,773</u>	<u>\$ 10,998,179</u>	<u>\$ 13,157,182</u>

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,769,653	\$ 36,218	\$ 998,942	\$ 2,804,813
Investment return				
Investment income	27,190	204,334	-	231,524
Net realized gain on investments	583	4,381	-	4,964
Net appreciation of investments	<u>28,584</u>	<u>214,640</u>	<u>-</u>	<u>243,224</u>
Total investment return	56,357	423,355	-	479,712
Contributions	-	-	9,999,237	9,999,237
Appropriation of endowment assets for expenditure	<u>(87,780)</u>	<u>(38,800)</u>	<u>-</u>	<u>(126,580)</u>
Endowment net assets, end of year	<u>\$ 1,738,230</u>	<u>\$ 420,773</u>	<u>\$ 10,998,179</u>	<u>\$ 13,157,182</u>

During 2013, the College agreed to limit the use of \$66,000 included in unrestricted endowment net assets to the Clifford Scholarship endowment, pursuant to an agreement with a grantor.

The College has interpreted the State of Maine Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the contributed value of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets an amount equal to the aggregate value in dollars of (a) each permanent donor-restricted endowment fund at the time it became an endowment fund, (b) each subsequent donation to the fund at the time the donation is made, and (c) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. Accordingly, unless explicitly stated otherwise by the donor, realized and unrealized net appreciation in investments in permanent donor-restricted endowment funds is reported as temporarily restricted net assets until appropriated by the Board of Trustees for expenditure. Funds designated by the Board of Trustees to function as endowments are classified as unrestricted net assets.

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

The objective of the endowment fund is to preserve the real (inflation adjusted) purchasing power of assets and to provide relatively predictable and constant income for current use, in accordance with the spending policy. The intention of the spending policy is to maintain and grow the real value of the portfolio while funding any identified needs the Board of Trustees may specify. Absent extraordinary circumstances, the annual spending from the endowment asset base is limited to 5% of the three-year rolling average of the endowment's market value. Effective July 1, 2013, the Board of Trustees reduced the limit to 4%. Management and other applicable expenses are not included with the spending allocation.

The total endowment fund shall be diversified both by asset class and within asset classes. Specifically, equity investments shall not be more than 75%, nor less than 55%, of the endowment. To encourage prudent asset diversification, no single stock (or convertible), at original cost, shall exceed 5% of the total endowment value. Developed and emerging international equity shall not exceed 30%. Fixed income shall not be less than 20%, nor greater than 40%, of the endowment. Except for government obligations guaranteed or backed by the U.S. Government, no single debt issuer shall exceed 5% of the total endowment value. Alternative investments shall not exceed 15% and cash shall not exceed 6% of the endowment portfolio.

Endowment 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, which are reported in unrestricted net assets, were \$13,940 and \$32,591 at June 30, 2013 and 2012, 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 deemed prudent by the Board of Trustees. Future increases in market value will first restore unrestricted net assets to the extent of these prior losses recognized.

3. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following:

	<u>2013</u>	<u>2012</u>
Purpose restricted		
Scholarships	\$ 94,308	\$ 59,983
Field of Dreams and Unity Centre for the Performing Arts	947,503	987,817
Davis Educational Foundation Grant	4,763	35,037
Other programs	81,073	44,043
Time restricted - unrestricted appreciation on permanently restricted endowment funds	<u>1,007,636</u>	<u>386,477</u>
	<u>\$ 2,135,283</u>	<u>\$ 1,513,357</u>

UNITY COLLEGE

Notes to Financial Statements

**June 30, 2013
(With Comparative Totals for June 30, 2012)**

4. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	<u>2013</u>	<u>2012</u>
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 880,966	\$ 762,354
Field of Dreams and Unity Centre for the Performing Arts	150,000	150,000
Any activities of the College	<u>10,085,833</u>	<u>10,085,825</u>
	11,116,799	10,998,179
 Gift of future interest, the income from which is expendable to support the library	 59,897	 59,596
 Land held with permanent restrictions (Note 9)	 <u>450,600</u>	 <u>450,600</u>
	\$ <u>11,627,296</u>	\$ <u>11,508,375</u>

5. Net Assets Released From Restrictions

Net assets were released from donor or grantor restrictions by incurring expenses satisfying the restricted purposes as follows:

	<u>2013</u>	<u>2012</u>
Scholarship and fellowship disbursements	\$ 472,838	\$ 417,243
Appropriation of unrestricted appreciation	233,150	-
Capital projects	18,300	190,684
Field of Dreams and Unity Centre for the Performing Arts depreciation	40,313	41,592
Unity Foundation College Advancement	-	69,045
Davis Educational Foundation Grant	94,374	34,863
EPSCoR Grant	90,662	124,156
Various other program expenses	<u>64,297</u>	<u>66,911</u>
	\$ <u>1,013,934</u>	\$ <u>944,494</u>

6. Unrestricted Net Assets

Unrestricted net assets include board-designated funds of \$1,610,864 and \$1,606,745 at June 30, 2013 and 2012, respectively, as a reserve for future plant expenditures.

UNITY COLLEGE

Notes to Financial Statements

**June 30, 2013
(With Comparative Totals for June 30, 2012)**

7. Gift of Future Interest

The College is a principal beneficiary of a charitable remainder unitrust. The future income stream is valued using a 7% discount rate and published life expectancy tables for the income beneficiary. The College's interest in the principal of this charitable remainder trust is reported based on the fair value of the underlying trust assets, discounted to present value. The remainder trust assets are restricted to establish a permanent endowment to support the library.

8. Borrowings

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
Term bank loan, fixed interest rate of 5.25%, through February 2022 when interest will be adjusted to a new rate equal to rates being charged on similar loans at the Bank, payable in monthly installments of \$18,425, including interest, through June 2026; collateralized by a mortgage on the College's land and buildings	\$ 2,061,538	\$ 2,169,752
Term bank loan, fixed interest rate of 4.85%, through June 2016 when interest rate will be adjusted to a new rate equal to the rate then being charged on similar loans at the Bank; payable in monthly installments of \$4,196, including interest, through maturity in December 2016, collateralized by substantially all assets	<u>610,719</u>	<u>630,506</u>
	<u>\$ 2,672,257</u>	<u>\$ 2,800,258</u>

Maturities of long-term debt for the next five years are as follows:

<u>Year Ending</u>	<u>Amount</u>
2014	\$ 135,300
2015	142,600
2016	150,000
2017	677,200
2018	141,100

The amount of interest cost incurred was \$146,059 in 2013, of which \$5,532 was capitalized and \$140,527 was expensed. The amount of interest incurred was \$154,275 in 2012, of which \$15,600 was capitalized and \$138,675 was expensed.

The College has available an unsecured \$750,000 line of credit. There were no advances under this line at June 30, 2013 or 2012.

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

9. Land, Buildings and Equipment

Land, buildings and equipment consist of:

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 1,999,880	\$ 1,906,789
Buildings and improvements	13,483,461	13,054,282
Furniture and equipment	4,855,795	4,362,376
Vehicles	751,002	698,588
Library collection	778,683	763,543
Other	59,555	59,555
Construction in progress	<u>403,249</u>	<u>150,041</u>
	22,331,625	20,995,174
Less accumulated depreciation	<u>12,798,935</u>	<u>11,912,083</u>
	<u>\$ 9,532,690</u>	<u>\$ 9,083,091</u>

In a prior year, the College received a gift of land, buildings, equipment and other assets valued at \$1,631,690. As the assets are subject to a right of first offer agreement between the College and a third-party beneficiary, the value of land and other non-depreciable assets of \$408,100 is included in permanently restricted net assets, and the value of buildings and other depreciable assets of \$1,223,590 is included in temporarily restricted net assets, net of accumulated depreciation. Per terms of this agreement, if the College desires to transfer the assets, the College must first offer to give the assets to the third-party beneficiary at no cost. If the third-party beneficiary waives the offer, and the College sells the land and buildings, all net proceeds will (a) add to the \$150,000 endowment the donor established at the date of the gift to support ongoing maintenance of the property, if the sale is of less than all the land and buildings, or (b) be paid to the third-party beneficiary if all the land and buildings are sold. If the College sells the equipment and other assets, it is entitled to retain the net proceeds.

Permanently restricted net assets also included a donated land parcel initially valued at \$42,500 which the College is not permitted to sell.

10. Retirement Plan

The College has established a tax deferred annuity plan with the Teachers Insurance and Annuity Association and College Retirement Equities Fund. All regular full and part-time employees and faculty who work a minimum of 1,000 hours per year are eligible to participate in the plan on a voluntary basis. Contributions to the plan, provided contributions are made by participants at a minimum of 3% of gross wages, are made by the College at 5% of the participant's gross wages. Plan expense was \$216,886 and \$219,435 for 2013 and 2012, respectively.

11. Student Loans

The College makes low-interest loans to students under the Perkins Loan Program, a revolving federal loan program for students. The Perkins Loan Program is funded by federal awards with the

UNITY COLLEGE

Notes to Financial Statements

**June 30, 2013
(With Comparative Totals for June 30, 2012)**

College matching funds equal to one-third of the federal contribution. No federal contributions were received in 2013 or 2012. These loans are provided without collateral under terms and conditions set forth by federal guidelines.

Principal and interest payments on student loans receivable generally do not commence until after the borrower graduates or otherwise ceases enrollment. The Perkins Loan Program has provisions for deferment, forbearance and cancellation of the individual loans. Principal payments, interest and losses due to cancellation are shared by the College and the U.S. Government in proportion to their share of funds provided.

Loan principal and interest collected on Perkins Loans is used for: (1) new student loans, (2) repayment of federal and institutional capital contributions previously made to the program, or (3) administrative expenses of the program.

12. Commitments

As is common practice in the field of higher education, the College has various employment contracts with faculty and administrators. Certain faculty members continue to be paid throughout the summer months for services rendered prior to June 30. Accordingly, these accruals, as well as other employee related accruals, are included in accrued liabilities in the statement of financial position.

The College has contracted for certain renovations to the student activities center. As of June 30, 2013, approximately \$186,000 remains on the contract, with completion expected in the summer of 2013.

13. Contributions and Grants Receivable

Contributions and grants receivable consist primarily of pledges for capital projects and grants for various operating purposes and are due as follows:

	<u>2013</u>	<u>2012</u>
One year or less	\$ 66,746	\$ 98,295
One to five years	30,000	20,000
More than five years	<u>23,001</u>	<u>28,931</u>
	<u>\$ 119,747</u>	<u>\$ 147,226</u>

14. Major Donors

During 2013, the College received approximately 55% of private gifts, grants and other support from three donors. During 2012, the College received approximately 98% of private gifts, grants and other support from one donor.

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

15. Related Party Transactions

The College maintains a savings account with Machias Savings Bank. A Machias Savings Bank board member is also a member of a committee of the College's Board of Trustees. Cash maintained at Machias Savings Bank was \$884,211 and \$880,877 at June 30, 2013 and 2012, respectively.

The College maintains cash accounts with, and has two notes payable to, Bangor Savings Bank. During the year ended June 30, 2012, a member of Bangor Savings Bank management became a member of the College's Board of Trustees. Cash maintained at Bangor Savings Bank was \$2,990,062 and \$3,021,789 at June 30, 2013 and 2012, respectively. Notes payable to Bangor Savings Bank totaled \$2,672,257 and \$2,800,258 at June 30, 2013 and 2012, respectively.

16. Asset Retirement Obligation

The College has evaluated its facilities and has determined that certain buildings contain asbestos, resulting in a conditional asset retirement obligation if the buildings are renovated or razed. In prior years, the College made plans to abate asbestos contained in Wood Hall and the North and South Coop buildings. The total estimated cost of this retirement obligation has been accrued in the statement of financial position. The related cost has been capitalized in land, buildings and equipment and is being depreciated over the estimated number of years until abatement. The College has not accrued any remaining asbestos removal obligation as its fair value cannot be reasonably estimated due to the conditional nature of the obligation.

17. Fund Raising Costs

Total fund raising costs were \$420,403 and \$478,814 for the years ended June 30, 2013 and 2012, respectively, and are classified as institutional support in the statement of activities.

18. Fair Value

ASC Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
 - Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.
 - Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.
-

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

Assets measured at fair value on a recurring basis at June 30, 2013 are summarized below:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs Using the Market Approach (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and money market funds	\$ 665,175	\$ 665,175	\$ -	\$ -
U.S. Government and agencies	703,512	703,512	-	-
Corporate bonds	1,845,236	1,540,974	304,262	-
Municipal bonds	150,000	150,000	-	-
Fixed income funds	3,741,422	3,741,422	-	-
International equity funds	2,285,526	2,285,526	-	-
Equity mutual funds				
Technology	1,285,803	1,285,803	-	-
Health care	1,102,117	1,102,117	-	-
Financials	1,224,574	1,224,574	-	-
Industrials	612,287	612,287	-	-
Consumer discretionary	979,659	979,659	-	-
Basic materials	61,229	61,229	-	-
Consumer staples	489,830	489,830	-	-
Utility	61,229	61,229	-	-
Energy	183,686	183,686	-	-
Telecommunications	122,457	122,457	-	-
Preferred stock	238,860	238,860	-	-
Gift of future interest	<u>59,897</u>	<u>-</u>	<u>-</u>	<u>59,897</u>
	<u>\$ 15,812,499</u>	<u>\$ 15,448,340</u>	<u>\$ 304,262</u>	<u>\$ 59,897</u>

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013
(With Comparative Totals for June 30, 2012)

Assets measured at fair value on a recurring basis at June 30, 2012 are summarized below:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Using the Market Approach (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and money market funds	\$ 521,425	\$ 521,425	\$ -	\$ -
U.S. Government and agencies	959,870	959,870	-	-
Corporate bonds	1,153,888	1,153,888	-	-
Municipal bonds	400,736	400,736	-	-
Fixed income funds	4,268,302	4,268,302	-	-
International equity funds	2,050,593	2,050,593	-	-
Equity mutual funds				
Technology	1,411,770	1,411,770	-	-
Health care	993,468	993,468	-	-
Financials	732,029	732,029	-	-
Industrials	418,302	418,302	-	-
Consumer discretionary	679,741	679,741	-	-
Basic materials	156,863	156,863	-	-
Consumer staples	418,302	418,302	-	-
Utility	52,288	52,288	-	-
Energy	104,576	104,576	-	-
Telecommunications	261,439	261,439	-	-
Common stock				
Packaging and containers	3,449	3,449	-	-
Preferred stock	245,870	245,870	-	-
Gift of future interest	<u>59,596</u>	<u>-</u>	<u>-</u>	<u>59,596</u>
	<u>\$ 14,892,507</u>	<u>\$ 14,832,911</u>	<u>\$ -</u>	<u>\$ 59,596</u>

Level 3 assets are valued based on the classification of the underlying investments held by the gift of future interest, which are actively traded. Level 2 assets are valued based on quoted market prices of similar instruments. In 2013, certain corporate bonds were reclassified from Level 1 to Level 2, as they did not have sufficient trading volume for quoted market prices to be available. In 2013, the gift of future interest was reclassified from Level 2 to Level 3 based on guidance issued by the American Institute of Certified Public Accountants, as observable market data is unavailable for such interests.

Increases in Level 3 assets are a result of basic appreciation in the underlying investments from year-to-year.

UNITY COLLEGE

Notes to Financial Statements

June 30, 2013

(With Comparative Totals for June 30, 2012)

19. **Supplemental Statement of Cash Flows Disclosures**

Cash paid for interest, net of amounts capitalized, was \$140,688 in 2013 and \$132,767 in 2012. Construction in progress additions included in accounts payable, and thus constituting noncash transactions, totaled \$240,790 and \$33,721 at June 30, 2013 and 2012, respectively.

UNITY COLLEGE

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	<u>Federal CFDA Number</u>	Pass-Through Grantor's <u>Number</u>	<u>Disbursements/ Expenditures</u>
U.S. Department of Education			
Title IV Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		\$ 1,034,723
Federal Supplemental Educational Opportunity Grant Program	84.007		107,610
Federal Work-Study Program	84.033		267,056
Federal Perkins Loan Program (Note 3)	84.038		65,210
Federal Direct Student Loans	84.268		<u>4,680,871</u>
Total Title IV Student Financial Assistance Cluster			6,155,470
Passed through states of Maine, Connecticut and Vermont			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A	<u>13,488</u>
Total U.S. Department of Education			6,168,958
National Science Foundation			
Passed through University of Maine System			
Office of Experimental Program to Stimulate Competitive Research	47.081	UM-S792	90,662
U.S. Department of Agriculture			
Forest Health Protection	10.680	13-CS- 11092200-021	<u>5,477</u>
Total Expenditures of Federal Awards			\$ <u>6,265,097</u>

The accompanying notes are an integral part of this schedule.

UNITY COLLEGE

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Unity College. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Loans Outstanding

Unity College had the following loan balances outstanding at June 30, 2013. This program is also included in the federal expenditures presented in this schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program	84.038	\$55,598

The cash balance of the Perkins Loan program was \$1,032 at June 30, 2013.