ST. MARY'S COLLEGE OF MARYLAND
FOUNDATION, INC.
St. Mary's City, Maryland

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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CliftonLarsonAllen LLP
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Independent Auditor's Report

To the Board of Directors
St. Mary's College of Maryland Foundation, Inc.
St. Mary's City, Maryland

We have audited the accompanying financial statements of St. Mary's College of Maryland Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
September 26, 2013

FINANCIAL STATEMENTS

ST. MARY'S COLLEGE OF MARYLAND FOUNDATION, INC.
STATEMENTS FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash	$ 2,006,917	$ 1,627,128
Investments	28,683,564	26,533,196
Investments - gift annuity	942,154	844,700
Receivables	37,759	91,317
Other assets	141,345	148,095
Promises to give, net	1,792,782	799,193
Property and equipment, net	348,093	348,093
Art collection (Note 1)	-	-
TOTAL ASSETS	$ 33,952,614	$ 30,391,722
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 443,210	$ 477,014
Deferred revenue	-	104,349
Gift annuity	755,912	789,595
Total liabilities	1,199,122	1,370,958
NET ASSETS		
Unrestricted	1,106,455	750,027
Temporarily restricted	6,240,851	4,655,826
Permanently restricted	25,406,186	23,614,911
Total net assets	32,753,492	29,020,764
TOTAL LIABILITIES AND NET ASSETS	$ 33,952,614	$ 30,391,722

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

ST. MARY'S COLLEGE OF MARYLAND FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Contributions	$ 142,214	$ 1,215,038	$ 1,881,304	$ 3,238,556	$ 282,221	$ 536,275	$ 2,473,461	$ 3,291,957
Donated services	1,251,708	-	-	1,251,708	1,176,532	-	-	1,176,532
Event revenue	194,892	9,069	-	203,961	219,852	-	-	219,852
Sponsorship	-	105,667	-	105,667	2,500	201,333	-	203,833
Other revenues	81,620	18,629	-	100,249	4,188	22,106	-	26,294
Investment income	137,397	1,914,960	-	2,052,357	185,752	703,282	-	889,034
Net assets released from restrictions	1,768,367	(1,678,338)	(90,029)	-	1,478,017	(1,476,517)	(1,500)	-
Total support and revenue	3,576,198	1,585,025	1,791,275	6,952,498	3,349,062	(13,521)	2,471,961	5,807,502
EXPENSES								
Program services:								
Support to St. Mary's College of Maryland								
Academic chair	5,397	-	-	5,397	7,968	-	-	7,968
Alumni activities	110,781	-	-	110,781	94,197	-	-	94,197
Art alliance	21,578	-	-	21,578	13,306	-	-	13,306
Athletics	84,527	-	-	84,527	83,616	-	-	83,616
Center for the Study of Democracy	134,460	-	-	134,460	53,806	-	-	53,806
Choir fund	-	-	-	-	50,597	-	-	50,597
College department/division support	160,359	-	-	160,359	184,174	-	-	184,174
Crew team	3,075	-	-	3,075	12,804	-	-	12,804
Faculty support	22,000	-	-	22,000	2,818	-	-	2,818
Facilities	4,680	-	-	4,680	-	-	-	-
Horton program	-	-	-	-	2,500	-	-	2,500
International studies	2,660	-	-	2,660	2,403	-	-	2,403
Lectureship series	4,867	-	-	4,867	395	-	-	395
Poetry festival	250	-	-	250	3,662	-	-	3,662
Sailing	16,151	-	-	16,151	10,238	-	-	10,238
Scholarships and awards	622,418	-	-	622,418	583,969	-	-	583,969
Student activities	9,923	-	-	9,923	11,559	-	-	11,559
Washington DC Program	10,944	-	-	10,944	-	-	-	-
Waterfront	99,207	-	-	99,207	27,061	-	-	27,061
Total	1,313,277	-	-	1,313,277	1,145,073	-	-	1,145,073

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

ST. MARY'S COLLEGE OF MARYLAND FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES (Continued)								
Other Program Services								
Community connection	$ -	$ -	$ -	$ -	$ 10,896	$ -	$ -	$ 10,896
Family weekend	-	-	-	-	8,525	-	-	8,525
Gift annuities	5,500	-	-	5,500	51,487	-	-	51,487
Governor's Cup	300	-	-	300	36,107	-	-	36,107
River Concert Series	254,274	-	-	254,274	395,461	-	-	395,461
Total	260,074	-	-	260,074	502,476	-	-	502,476
Total program services	1,573,351	-	-	1,573,351	1,647,549	-	-	1,647,549
Supporting services:								
Management and general	845,105	-	-	845,105	701,501	-	-	701,501
Fundraising	801,314	-	-	801,314	832,331	-	-	832,331
Total supporting services	1,646,419	-	-	1,646,419	1,533,832	-	-	1,533,832
Total expenses	3,219,770	-	-	3,219,770	3,181,381	-	-	3,181,381
Change in net assets	356,428	1,585,025	1,791,275	3,732,728	167,681	(13,521)	2,471,961	2,626,121
NET ASSETS								
Beginning	750,027	4,655,826	23,614,911	29,020,764	582,346	4,669,347	21,142,950	26,394,643
Ending	$ 1,106,455	$ 6,240,851	$ 25,406,186	$ 32,753,492	$ 750,027	$ 4,655,826	$ 23,614,911	$ 29,020,764

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

ST. MARY'S COLLEGE OF MARYLAND FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,732,728	$ 2,626,121
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions received for endowment	(1,881,304)	(2,473,461)
Depreciation	-	22
Realized and unrealized gains on investments	(1,515,488)	(500,043)
Donated securities	(80,813)	(1,058,051)
Discount and allowance on promises to give	93,679	(86,887)
Uncollectible promises to give	139,869	11,706
Loss on disposal of property and equipment	-	23,139
Changes in assets and liabilities:		
Effect of:		
Promises to give	(993,589)	(9,376)
Receivables	53,558	(18,665)
Other assets	6,750	(24,671)
Accounts payable and accrued expenses	(33,804)	(45,922)
Deferred revenue	(104,349)	(43,636)
Gift annuity	(33,683)	71
Net cash used in operating activities	(616,446)	(1,599,653)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(21,335,625)	(3,137,632)
Proceeds from sale of investments	20,450,556	3,094,445
Net cash used in investing activities	(885,069)	(43,187)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received for endowment	1,881,304	2,473,461
NET INCREASE IN CASH	379,789	830,621
CASH, BEGINNING OF YEAR	1,627,128	796,507
CASH, END OF YEAR	$ 2,006,917	$ 1,627,128
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Donated securities	$ 80,813	$ 1,058,051

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

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

St. Mary's College of Maryland Foundation, Inc. (the Foundation) is a not-for-profit corporation founded in Maryland in 1971. The Foundation's principal activity is to provide support for the faculty and students of St. Mary's College of Maryland (the College). The Foundation raises funds and receives, holds, invests, manages, uses, disposes of, and administers property, as appropriate. All funds are used for the furtherance of the mission of the College.

A summary of the Foundation's significant accounting policies follows:

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recorded when incurred.

Basis of Presentation

The Foundation follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Presentation of Financial Statements for Not-for-Profit Entities.* The codification requires financial statements to present balances and transactions according to the existence or absence of member-imposed restrictions. This has been accomplished by aggregating all funds into one set of financial statements and classifying transactions into three classes of net assets - unrestricted, temporarily restricted, or permanently restricted as follows:

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

Temporarily Restricted Net Assets - net assets that are subject to donor-imposed stipulations that require passage of time or the occurrence of a specific event. When conditions of the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets.

Permanently Restricted Net Assets - net assets that are subject to donor-imposed restrictions that require the principal balance to be kept in perpetuity while permitting the Foundation to use or expend part or all of the income derived from the assets. These restrictions neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. Contributions received are measured at their fair values and are reported as an increase in net assets.

Certain unrestricted net assets have been designated by the Board of Directors and consist of the Goodpastor Lectureship series, Anne Skone Weaver Endowed Scholarship fund, Ruth Cooper Memorial Scholarship, and Maurine Holbert Hogaboom Endowed Scholarship in the amounts of $95,000; $56,924; $24,489, and $25,434 respectively as of June 30, 2013.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenue and expenses. Accordingly, actual results could differ from the estimates that were used.

Cash

All cash and investments, regardless of maturity, held by investment advisors, are considered investments.

Financial Risk

The Foundation invests in a professionally managed portfolio that contains fixed income, money market funds, equities, and alternative investments. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Investments

Investments with readily determinable fair values are reflected at fair market value. The Foundation also holds positions in alternative investments. These alternative investments are recorded at estimated fair value based on net asset value and fund manager estimates. There are inherent limitations in any valuation technique for non-readily marketable securities. Therefore, the value is not necessarily indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material. To adjust the carrying value of the investments, unrealized gains and losses are reported in the statements of activities as a part of investment income. Interest and dividends from investments are recorded as investment income when earned.

Investment Pools

The Foundation maintains master investment accounts for its donor-restricted endowments and combines these assets into a common investment pool which closely resembles a mutual fund. Beginning July 1, 2011, the Foundation adopted a unitization approach to the pool. Each endowment owns a number of units in the pool. Purchases and sales of shares in the pool are based upon the market value per share at the beginning of the quarter the transaction takes place. All net investment income (interest, dividends, realized and unrealized gains and losses, investment manager and Foundation service and administrative fees) from securities in the master investment accounts are allocated quarterly to the individual endowments based upon the number of units each endowment fund holds.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Receivables are carried at original invoice amounts, less an estimate made for doubtful accounts based on a review of outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Interest is not recorded on any past due balances. There was no provision for doubtful accounts, based on management's evaluation of the collectability of receivables at June 30, 2013 and 2012. Receivables included interest receivables in the amount of $30,743 and $86,084 at June 30, 2013 and 2012, respectively.

Promises to Give

Unconditional promise to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are only recognized when the conditions on which they depend are substantially met. Unconditional promises to give are carried at fair value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible. The provision for doubtful promises based on management's evaluation of the collection of promises was 6.5 percent of the gross value of the promises due beyond the year ending June 30, 2013, and 8.2 percent of the gross value of the promises due beyond the year ending June 30, 2012.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are recognized at appraised value when received. Depreciation is provided using the straight-line method over estimated useful lives of the assets ranging from five to ten years. The Foundation capitalizes all property and equipment purchased with an individual cost of $1,500.

Impairment of Long-lived Assets

The Foundation accounts for the valuation of long-lived assets by reviewing for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Art Collection

The Art Collection owned by the Foundation was acquired through contributions in the fiscal year ended June 30, 2004. These items are not included as assets in the balance sheets because these assets will be transferred to the College or otherwise disposed. The cost of these items is not readily available, and the Foundation is of the opinion that, because of the intrinsic value of the items, it is impractical to assign values to the components.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gift Annuities Payable

Carrying amounts represent the present value of the contractual payments over the estimated remaining term.

Revenue Recognition

Contributions received are recorded as permanently restricted, temporarily restricted, or unrestricted support, depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Event revenue is recognized when the particular event occurs.

Donated Services and Facilities

Donated services are recorded as revenue and expense in the financial statements for services received from the College. Donated services from the College are principally related to shared staff time. Contributed office space and facilities are also recorded at their estimated fair value.

Service Fees

The Foundation applies an annual service fee of up to 2 percent on the total value of its endowed funds. The actual service fee rate is fixed annually at a level that is sufficient to cover the core Foundation expenses, including, but not limited to, insurance, accounting, legal, and investment management.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities.

Income Taxes

The Foundation is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Foundation has been determined by the Internal Revenue Service (IRS) not to be a private foundation. Income, which is not related to its exempt purpose, less applicable deductions, is subject to federal and state corporate income taxes.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Foundation adopted the accounting standard on accounting for uncertainty in income taxes (FASB ASC Topic 740-10), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Tax benefits recognized on the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management has evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Foundation files tax returns in the U.S. federal jurisdiction. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for tax years before 2010.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Fair Value Topic of the FASB Codification (the Codification) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

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

Level 2
Inputs to the valuation methodology include:

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

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

NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to the fair value disclosures of the Codification.

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Equities	$ 12,787,488	$ -	$ -	$ 12,787,488
Fixed income securities				
U.S. corporate bonds	-	4,228,361	-	4,228,361
Global corporate bonds	-	504,107	-	504,107
Foreign exchange and non-USD fixed income	-	725,072	-	725,072
Total fixed income securities	-	5,457,540	-	5,457,540
Alternative Investments				
Hedge funds	-	-	5,621,727	5,621,727
Real estate	-	1,253,855	-	1,253,855
Hard assets	440,111	642,602	-	1,082,713
Total alternative investments	440,111	1,896,457	5,621,727	7,958,295
Interest held in perpetual trust	-	1,354,544	-	1,354,544
	$ 13,227,599	$ 8,708,541	$ 5,621,727	27,557,867
*Cash and money market funds				2,067,851
Total				$ 29,625,718

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Equities	$ 7,051,541	$ -	$ -	$ 7,051,541
Fixed income securities				
Corporate bonds	-	4,255,923	-	4,255,923
Government bonds	-	2,907,413	-	2,907,413
	-	7,163,336	-	7,163,336
Interest held in perpetual trust	-	1,293,740	-	1,293,740
	$ 7,051,541	$ 8,457,076	$ -	15,508,617
*Cash and money market funds				11,869,279
Total				$ 27,377,896

*Cash and money market funds are recorded at cost and, accordingly, are excluded from the fair value hierarchy.

NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)

The equity securities and certain hard assets above classified as Level 1 are classified as such due to the underlying assets being publicly traded instruments with observable market-based inputs.

The fixed income securities, real estate, certain hard assets, and interest held in perpetual trust above classified as Level 2 are classified as such due to the underlying assets being observable market-based inputs.

The hedge funds above classified as Level 3 are classified as such due to the fact that the valuation of these assets is based on significant unobservable inputs.

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial assets for the year ended June 30, 2013:

Beginning balance as of July 1, 2012	$ -
Purchases	4,950,705
Unrealized gain	671,022
Ending balance as of June 30, 2013	$ 5,621,727

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2013 are as follows:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Brahman Partners II	$ 660,110	N/A	1 year soft lock-up	70 days
CCP Quantitative Fund	246,934	N/A	Monthly	35 days
Manikay Offshore Fund	816,941	N/A	Quarterly	65 days
Southpaw Credit Opportunities Fund	545,494	N/A	1 year soft lock-up	65 days

Hedge funds use a variety of strategies, including hedged equity, global trading, market neutral, long and short biased, event driven, and global asset allocation. Hedge funds can invest in a wide variety of both public and private securities including equities, fixed income, commodities, private placements, currencies, real estate, derivatives and special situation investments.

During 2000, the Foundation became a named beneficiary to one-fourth of a trust held by a third party. The trust is restricted to scholarships. Under the terms of the trust, the Foundation will receive a distribution each year of one-fourth of 5 percent of the value of the trust, even if the 5 percent is to be paid from the principal. The Foundation records one-fourth of the annual changes in the market value of the trust as investment income. The value of the Foundation's share of the trust was $1,354,544 and $1,293,740 as of June 30, 2013 and 2012, respectively. The Foundation received distributions of $70,000 for each of the years ended June 30, 2013 and 2012.

NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)

Investment income consists of the following components for the years ended June 30:

	2013	2012
Interest, dividends, and distributions	$ 536,869	$ 388,991
Realized and unrealized gains	1,454,684	543,967
Change in value of interest in perpetual trust	60,804	(43,924)
Total	$ 2,052,357	$ 889,034

NOTE 3 – PROMISES TO GIVE

Promises to give consist of the following at June 30:

	2013	2012
Planned gifts	$ 1,700,000	$ 1,700,000
Restricted to other programs	342,174	177,282
Restricted to scholarships	106,159	34,374
Restricted to endowed scholarships	1,038,018	150,663
Restricted to endowment funds	-	3,925
Restricted for the Center for the Study of Democracy	65,995	98,834
Unconditional promises to give before unamortized discount and allowance for uncollectibles	3,252,346	2,165,078
Less: unamortized discount at 1.4% in 2013 and 1.8% in 2012	1,375,228	1,213,859
Less: allowance for uncollectibles at 6.5% in 2013 and 8.2% in 2012	84,336	152,026
Total promises to give	$ 1,792,782	$ 799,193

Promises to give are due to be collected in the following periods:

Less than one year	$ 254,866	$ 311,106
One to five years	1,297,480	153,972
More than ten years	1,700,000	1,700,000
Total	$ 3,252,346	$ 2,165,078

The Foundation has $4,428,378 and $5,207,877 in conditional pledges as of June 30, 2013 and 2012, respectively. Due to the conditional nature of these pledges, they are not recorded in the Foundation's financial statements. In August 2013, the Organization received a $240,550 payment on one such conditional pledge, with an estimate of up to $750,000 in additional funds to be forthcoming.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation are as follows at June 30:

2013

Category	Estimated Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Paintings	-	$ 343,418	$ -	$ 343,418	$ -
Boat and marine equipment	5-10 years	4,500	3,951	549	-
Office equipment and other	3-7 years	47,825	43,699	4,126	-
Total		$ 395,743	$ 47,650	$ 348,093	$ -

2012

Category	Estimated Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Paintings	-	$ 343,418	$ -	$ 343,418	$ -
Boat and marine equipment	5-10 years	10,523	9,974	549	-
Office equipment and other	3-7 years	47,825	43,699	4,126	22
Total		$ 401,766	$ 53,673	$ 348,093	$ 22

The Foundation owns boats that are used in the College's sailing education programs. Boats were typically received in prior years by donation. The Foundation no longer accepts boat donations.

NOTE 5 – ASSETS HELD IN CHARITABLE GIFT ANNUITIES

The Foundation has established 33 gift annuity programs. The programs allow the Foundation to accept a gift from a donor in exchange for the Foundation agreeing to pay the donor's annuity payments until the donor's death. The Foundation evaluates each potential annuity prior to acceptance with the consideration of the age of the donor, terms of the annuity payments, required payments terms, and the gift acceptance policy.

Upon execution of the charitable gift annuities, the Foundation records an asset for the fair market value of charitable gift annuities, and a liability based upon the actuarial present value of amounts expected to be paid to the donors. The net of the gift annuity asset and liability is the remainder interest, the residual amount the Foundation expects to receive from the annuities. The present value is re-adjusted annually, with the value based on an actuarial calculation as summarized below:

NOTE 5 – ASSETS HELD IN CHARITABLE GIFT ANNUITIES (CONTINUED)

Gift annuities remainder interest expected to be paid out (based on life expectancy tables) in:

	2013	2012
Less than one year	$ 83,942	$ 79,802
One to five years	335,768	322,077
Over 5 years	336,202	387,716
Total	$ 755,912	$ 789,595

The following table summarizes activity in the gift annuities for the years ended June 30, 2013 and 2012:

Charitable gift annuities balance at July 1, 2011	$ 845,877
Contributions	45,000
Annuity payments	(76,667)
Change in value	30,490
Charitable gift annuities balance at June 30, 2012	844,700
Contributions	70,000
Annuity payments	(79,839)
Change in value	107,293
Charitable gift annuities balance at June 30, 2013	$ 942,154

Pursuant to charitable gift annuity regulations COMAR 31.09.07.03, the Foundation maintains sufficient assets to equal the sum of the reserves on its outstanding annuity agreements, as noted above.

The reserves on the outstanding annuity agreements are consistent with the assumptions underlying the respective rates adopted by the American Council on Gift Annuities which were in effect at the time of the issuance of the respective annuity contracts.

The liabilities are determined based upon the donor's life expectancy and using a discount rate on the date of receipt, provided by IRS valuation tables. At the time of the donor's death, any remaining unamortized liability is recorded as additional donations.

NOTE 6 – RESTRICTED NET ASSETS

Temporarily restricted net assets activity consists of the following:

	Balance, June 30, 2012	Additions	Investment Activity	Reclassifications	Restriction Accomplished	Balance, June 30, 2013
Arts alliance	$ 24,944	$ 20,047	$ 10	$ -	$ (29,919)	$ 15,082
Center for the Study of Democracy	317,834	125,377	130,993	-	(140,660)	433,544
Endowed chairs	110,800	-	232,560	-	(40,693)	302,667
River Concert Series	94,691	94,293	-	-	(188,984)	-
Washington D.C. program	85,987	-	-	-	(10,944)	75,043
Slackwater	35,960	-	-	-	(11,096)	24,864
Waterfront	201,729	28,858	62	-	(106,593)	124,056
Library support	427,192	235	157,542	-	(41,089)	543,880
Other programs	663,766	826,066	221,737	-	(388,172)	1,323,397
Scholarships and awards	2,692,923	253,527	1,172,056	-	(720,188)	3,398,318
Total	$ 4,655,826	$ 1,348,403	$ 1,914,960	$ -	$ (1,678,338)	$ 6,240,851

	Balance, June 30, 2011	Additions	Investment Activity	Reclassifications	Restriction Accomplished	Balance, June 30, 2012
Arts alliance	$ 15,350	$ 21,806	$ -	$ -	$ (12,212)	$ 24,944
Center for the Study of Democracy	232,028	93,900	54,198	7,551	(69,843)	317,834
Endowed chairs	74,711	3,300	50,811	641	(18,663)	110,800
Gift annuity	573	-	-	-	(573)	-
River Concert Series	-	377,069	-	38,821	(321,199)	94,691
Choir fund	50,592	-	-	-	(50,592)	-
Washington D.C. program	85,987	-	-	-	-	85,987
Slackwater	35,960	-	-	-	-	35,960
Waterfront	179,808	26,910	1,696	5,098	(11,783)	201,729
Library support	402,365	100	80,250	9,210	(64,733)	427,192
Other programs	831,852	27,566	72,602	(19,914)	(248,340)	663,766
Scholarships and awards	2,760,121	204,180	443,725	(36,524)	(678,579)	2,692,923
Total	$ 4,669,347	$ 754,831	$ 703,282	$ 4,883	$ (1,476,517)	$ 4,655,826

Beginning July 1, 2011, the Foundation adopted a unitization approach to its common endowment investment pool. This approach closely resembles a mutual fund where each individual endowment fund owns shares in the pool. The number of shares and market value for each endowment fund was determined using the June 30, 2011 market value and assigning an initial value of $100 per share/unit. The value per share was reset to $100 per share/unit at July 1, 2012 to facilitate the implementation of Endowment Solutions unitization management software The investment income balance includes the temporarily restricted, as well as the permanently restricted components of each fund. Investment income is only allocated to funds with a permanently restricted component. An allocation of investment loss, in excess of the temporarily restricted balance in the fund, is absorbed by the Foundation's unrestricted net assets.

The Center for the Study of Democracy, jointly with Historic St. Mary's City, offers academic and civic engagement opportunities unique to the legacy of the College.

The Waterfront Program provides recreational and athletic opportunities to the College students.

Library support funds are restricted to support library acquisitions and other library resources.

NOTE 6 – RESTRICTED NET ASSETS (CONTINUED)

Other programs include support for various funds, including but not limited to the Art Department, Women's Studies, Christmas in April and Facilities and Events.

Scholarships and awards are restricted contributions to assist the students of the College based on merit and/or financial need. A special emergency assistance fund was established during fiscal year 2009 to assist with extraordinary needs of students resulting from the difficult economic times.

During the years ended June 30, 2013 and 2012, net assets were released from donor restriction when expenses satisfying the restricted purposes were incurred, or by occurrence of other events specified by donors.

Permanently restricted net assets activity consists of the following:

	Balance, June 30, 2012	Additions	Reclassifications	Restriction Accomplished	Balance, June 30, 2013
Center for the Study of Democracy	$ 2,059,506	$ 4,699	$ -	$ (12,500)	$ 2,051,705
Endowed chairs	3,213,720	-	-	-	3,213,720
Library support	1,788,625	105	-	-	1,788,730
Other programs	2,777,182	140,983	-	(5,284)	2,912,881
Scholarships and awards	13,775,878	1,735,517	-	(72,245)	15,439,150
Total	$ 23,614,911	$ 1,881,304	$ -	$ (90,029)	$ 25,406,186

	Balance, June 30, 2011	Additions	Reclassifications	Restriction Accomplished	Balance, June 30, 2012
Center for the Study of Democracy	$ 1,956,690	$ 48,803	$ 54,013	$ -	$ 2,059,506
Endowed chairs	3,045,720	-	168,000	-	3,213,720
Library support	1,785,359	250	3,016	-	1,788,625
Other programs	1,449,124	1,033,944	294,114	-	2,777,182
Scholarships and awards	12,906,057	1,390,464	(519,143)	(1,500)	13,775,878
Total	$ 21,142,950	$ 2,473,461	$ -	$ (1,500)	$ 23,614,911

Permanently restricted net assets represent donor-restricted contributions in which the donor has stipulated that the principal be maintained intact. During the years ended June 30, 2013 and 2012, donors re-characterized the nature of certain endowment donations totaling $10,860 and $1,500, respectively, from permanently restricted to unrestricted. Additionally during the years ended June 30, 2013 and 2012, the Organization wrote-off $79,169 and $10,880, respectively, related to permanently restricted pledges no longer deemed collectable. Unless otherwise stated by the donor, investment income is recorded into temporarily restricted net assets to be used for specific purposes.

NOTE 7 – ENDOWMENT NET ASSETS

Interpretation

The Foundation has interpreted the Maryland enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Management has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of permanently restricted cash contributions and (b) the discounted value of future permanently restricted cash contributions, net of allowance for uncollectible pledges. The remaining portion of donor-restricted cash contributions are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- The purposes of the Foundation and donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

The Foundation has adopted investment and spending policies for permanently restricted cash contributions that attempt to provide a predictable stream of funding to programs, while maintaining purchasing power.

Spending Policy

For each of the years ended June 30, 2013 and 2012, the Foundation approved a spending policy of 3% percent of an endowed fund's permanently restricted assets, based on a three year average. In addition to the spending rate, for the both years ended June 30, 2013 and 2012, the Foundation applied a service fee of 1%, to an endowed fund's permanently restricted assets. The service fee rate is fixed at a level that is sufficient to cover the core Foundation expenses, including, but not limited to, insurance, accounting, legal, and investment management. The permanently restricted earnings are used in accordance with either the donor's stated purpose or to support the Foundation's operations in general as described in Note 6 to the financial statements.

Investment Policy

The Foundation's investment policy is approved by the joint investment advisory committee which was established by the Foundation's Board of Director's. The committee analyzes risk and return and determines target asset allocation. The committee selects investment advisors and provides them with the approved asset allocations. The portfolio must offer sufficient liquidity to meet payments of philanthropic endeavors and operating expenses. The Foundation's intent is to remain in perpetuity, and as such, the portfolio should support this goal.

NOTE 7 – ENDOWMENT NET ASSETS (CONTINUED)

Endowment fund activity for the years ended June 30, 2013 and 2012, consists of the following:

	Unrestricted	Board Designated Endowment	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	$ (60,007)	$ 95,000	$ 3,134,428	$ 20,334,598	$ 23,504,019
Contributions	-	81,413	-	2,473,461	2,554,874
Adjustments	(62,274)	-	(1,653,370)	130,650	(1,584,994)
Net investment gain	98,286	-	675,575	-	773,861
Appropriation of endowment assets for expenditure	(4,072)	-	(692,192)	(1,500)	(697,764)
Endowment net assets, June 30, 2012	(28,067)	176,413	1,464,441	22,937,209	24,549,996
Contributions	-	25,434	-	1,013,986	1,039,420
Net investment gain	27,664	-	1,839,573	-	1,867,237
Appropriation of endowment assets for expenditure	-	-	(753,262)	(10,860)	(764,122)
Endowment net assets, June 30, 2013	$ (403)	$ 201,847	$ 2,550,752	$ 23,940,335	$ 26,692,531

The permanently restricted balances above do not include pledges receivables of $1,465,851 and $677,702 for the years ended June 30, 2013 and 2012, respectively. The endowment assets are primarily comprised of the Foundation's investments, as detailed in Note 2. The remaining endowment assets are comprised of cash.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Foundation receives services from various individuals whose salaries and benefits are paid by the College. In addition, the College provided the Foundation available administrative office space and use of facilities. These donated services and facilities amounted to $1,251,708 and $1,176,532 for the years ended June 30, 2013 and 2012, respectively. Such amounts are recorded as both donated services revenue and supporting services expenses.

NOTE 9 – SUBSEQUENT EVENTS

Management evaluated subsequent events through September 26, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to September 26, 2013, that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2013.