

BRIDGEWATER COLLEGE

FINANCIAL REPORT

June 30, 2010

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Independent Auditor's Report

Board of Trustees
Bridgewater College
Bridgewater, Virginia

We have audited the accompanying statement of financial position of Bridgewater College as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Bridgewater College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Bridgewater College as of June 30, 2009, were audited by other auditors whose report dated September 29, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Bridgewater College as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010, on our consideration of Bridgewater 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cherry, Bekaert + Holland, LLP

Richmond, Virginia
September 30, 2010

BRIDGEWATER COLLEGE
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	2010		
	Operating and Other	Endowment	Total
ASSETS			
Cash and cash equivalents	\$ 2,829,247	\$ -	\$ 2,829,247
Short-term investments	10,808,415	-	10,808,415
Student receivables, net of allowance for doubtful accounts in 2010 of \$60,000; in 2009 of \$59,000	242,194	-	242,194
Other accounts receivable and assets	126,154	145,085	271,239
Notes receivable, college and government student loans, net of allowance for doubtful accounts \$15,000	4,212,819	-	4,212,819
Notes receivable, other	10,267	-	10,267
Contributions receivable (Note 2)	2,023,442	1,819,846	3,843,288
Investments (Note 3)	635,350	61,855,002	62,490,352
Cash and investments restricted for land, buildings and equipment	-	-	-
Land, buildings and equipment, net of accumulated depreciation (Notes 4 and 5)	55,214,904	-	55,214,904
Funds held in trust by others	-	120,297	120,297
Total assets	\$ 76,102,792	\$ 63,940,230	\$ 140,043,022
LIABILITIES AND NET ASSETS			
Accounts payable	\$ 2,249,484	\$ -	\$ 2,249,484
Accrued and other liabilities	1,157,761	66,947	1,224,708
Accrued interest	337,028	-	337,028
Student and other deposits	1,627,264	-	1,627,264
Construction Line of Credit (Note 14)	1,800,000	-	1,800,000
Trust and annuity obligations	113,895	4,511,983	4,625,878
U.S. government grants refundable	1,780,546	-	1,780,546
Debt (Note 5)	28,041,595	-	28,041,595
Due to (from) other funds	(383,510)	383,510	-
Total liabilities	36,724,063	4,962,440	41,686,503
Net assets (Note 6)			
Unrestricted	35,600,270	4,100,789	39,701,059
Temporarily restricted	3,758,585	12,903,416	16,662,001
Permanently restricted	19,874	41,973,585	41,993,459
Total net assets	39,378,729	58,977,790	98,356,519
Total liabilities and net assets	\$ 76,102,792	\$ 63,940,230	\$ 140,043,022

2009

Operating and Other	Endowment	Total
\$ 1,557,573	\$ -	\$ 1,557,573
10,312,656	-	10,312,656
257,467	-	257,467
156,808	643,553	800,361
4,197,967	-	4,197,967
12,572	62,282	74,854
1,838,770	1,449,692	3,288,462
584,575	54,318,099	54,902,674
446,108	-	446,108
53,285,558	-	53,285,558
-	112,943	112,943
<u>\$ 72,650,054</u>	<u>\$ 56,586,569</u>	<u>\$ 129,236,623</u>
\$ 808,852	\$ -	\$ 808,852
1,485,546	23,443	1,508,989
347,366	-	347,366
1,195,555	-	1,195,555
-	-	-
103,316	4,528,235	4,631,551
1,771,020	-	1,771,020
29,137,415	-	29,137,415
(13,680)	13,680	-
<u>34,835,390</u>	<u>4,565,358</u>	<u>39,400,748</u>
32,333,323	3,030,317	35,363,640
5,461,467	9,986,022	15,447,489
19,874	39,004,872	39,024,746
<u>37,814,664</u>	<u>52,021,211</u>	<u>89,835,875</u>
<u>\$ 72,650,054</u>	<u>\$ 56,586,569</u>	<u>\$ 129,236,623</u>

BRIDGEWATER COLLEGE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES				
Tuition and fees	\$ 38,246,810	\$ -	\$ -	\$ 38,246,810
Less financial aid	(18,671,591)	-	-	(18,671,591)
Net tuition and fees (Note 7)	19,575,219	-	-	19,575,219
Contributions	705,220	892,399	-	1,597,619
Investment income, endowment available to support current operations (Note 3)	-	2,797,157	-	2,797,157
Investment income, temporary investments	52,389	1,863	-	54,252
Government grants	-	231,890	-	231,890
Auxiliary services	13,045,873	-	-	13,045,873
Other income	532,256	306,647	-	838,903
Net assets released from restrictions and reclassifications (Note 8)	3,641,045	(3,641,045)	-	-
Total operating revenues	37,552,002	588,911	-	38,140,913
OPERATING EXPENSES				
Educational and general				
Instruction	10,519,671	-	-	10,519,671
Academic support	4,020,120	-	-	4,020,120
Student services	7,910,657	-	-	7,910,657
Institutional support	5,743,612	-	-	5,743,612
Auxiliary services	7,403,073	-	-	7,403,073
Total operating expenses (Note 9)	35,597,133	-	-	35,597,133
Change in net assets, operating	1,954,869	588,911	-	2,543,780
NON-OPERATING INCOME				
Contributions	1,767,895	(1,670,413)	2,164,485	2,261,967
Investment income (Note 3)	122,808	39,218	79,796	241,822
Investment return, net of amount available to support current operations (Note 3)	765,526	3,043,576	299,611	4,108,713
Other	119,467	(73,350)	(20,811)	25,306
Loss on disposal of fixed assets	(159,377)	-	-	(159,377)
Change in value of split-interest agreements	(297,188)	(114,399)	(89,980)	(501,567)
Settlement of postretirement benefit obligation	-	-	-	-
Net assets released from restrictions and reclassifications (Note 8)	63,419	(599,031)	535,612	-
Change in net assets, non-operating	2,382,550	625,601	2,968,713	5,976,864
Change in net assets	4,337,419	1,214,512	2,968,713	8,520,644
NET ASSETS				
Beginning of year	35,363,640	15,447,489	39,024,746	89,835,875
End of year	<u>\$ 39,701,059</u>	<u>\$ 16,662,001</u>	<u>\$ 41,993,459</u>	<u>\$ 98,356,519</u>

BRIDGEWATER COLLEGE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES				
Tuition and fees	\$ 34,046,693	\$ -	\$ -	\$ 34,046,693
Less financial aid	(16,272,912)	-	-	(16,272,912)
Net tuition and fees (Note 7)	17,773,781	-	-	17,773,781
Contributions	2,629,551	940,251	-	3,569,802
Investment income, endowment available to support current operations (Note 3)	-	2,725,660	-	2,725,660
Investment income, temporary investments	206,716	2,429	-	209,145
Government grants	-	184,870	-	184,870
Auxiliary services	12,111,797	-	-	12,111,797
Other income	616,459	413,126	-	1,029,585
Net assets released from restrictions and reclassifications (Note 8)	3,735,838	(3,735,838)	-	-
Total operating revenues	37,074,142	530,498	-	37,604,640
OPERATING EXPENSES				
Educational and general				
Instruction	10,237,410	-	-	10,237,410
Academic support	4,082,769	-	-	4,082,769
Student services	7,837,104	-	-	7,837,104
Institutional support	5,320,139	-	-	5,320,139
Auxiliary services	7,140,003	-	-	7,140,003
Total operating expenses (Note 9)	34,617,425	-	-	34,617,425
Change in net assets, operating	2,456,717	530,498	-	2,987,215
NON-OPERATING INCOME				
Contributions	-	25,172	834,840	860,012
Investment income (Note 3)	284,777	57,883	203,144	545,804
Investment return, net of amount available to support current operations (Note 3)	(2,458,720)	(9,314,331)	(636,528)	(12,409,579)
Other	141,271	(8,116)	(21,729)	111,426
Loss on disposal of fixed assets	(162,042)	-	-	(162,042)
Change in value of split-interest agreements	(207,145)	(51,224)	(327,172)	(585,541)
Settlement of postretirement benefit obligation	85,750	-	-	85,750
Net assets released from restrictions and reclassifications (Note 8)	1,912	(55,364)	53,452	-
Change in net assets, non-operating	(2,314,197)	(9,345,980)	106,007	(11,554,170)
Change in net assets	142,520	(8,815,482)	106,007	(8,566,955)
NET ASSETS				
Beginning of year	35,221,120	24,262,971	38,918,739	98,402,830
End of year	<u>\$ 35,363,640</u>	<u>\$ 15,447,489</u>	<u>\$ 39,024,746</u>	<u>\$ 89,835,875</u>

BRIDGEWATER COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,520,644	\$ (8,566,955)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-operating and non-cash items:		
Contributions restricted for plant expansion and endowment	(1,888,346)	(1,611,744)
Net realized and unrealized gains on investments	(6,176,189)	10,564,570
Write-off of notes receivable	83,941	54,412
Change in funds held in trust by others	(7,354)	20,279
Loss on disposals of land, buildings, and equipment	167,897	162,042
Depreciation and amortization	2,692,925	2,716,630
Change in certain operating assets and liabilities:		
(Increase) decrease in:		
Student receivables	15,273	(110,285)
Other accounts receivable and assets	529,122	(19,137)
Contributions receivable	(554,826)	882,329
(Decrease) increase in:		
Accounts payable, accrued and other liabilities	191,745	636,018
Trust and annuity obligations, net of payments	740,614	(10,641)
U.S. government grants refundable	9,526	45,016
Net cash provided by operating activities	4,324,972	4,762,534
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in notes receivable, net of write-offs	(34,206)	(338,093)
Purchases of land, buildings and equipment	(4,705,633)	(1,944,974)
Less debt incurred on purchases	1,939,073	-
Less accounts payable incurred on purchases – current year	1,704,151	318,174
Plus accounts payable incurred on purchases – prior year	(318,174)	(472,905)
Proceeds from sale of land, buildings and equipment	1,230	24,538
Change in funds restricted to investment in land, buildings and equipment	446,108	1,646,507
Change in investments, net of proceeds from sales	(1,947,052)	(3,397,804)
Net cash used in investing activities	(2,914,503)	(4,164,557)

BRIDGEWATER COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for plant expansion and endowment	1,888,346	1,611,744
Payments of trust and annuity obligations	(746,287)	(609,370)
Issuance of new debt	1,939,073	-
Less new debt incurred to finance land, buildings and equipment additions	(139,073)	-
Less cash and investments used for land, buildings and equipment	(1,800,000)	-
Payments on debt	(1,280,854)	(1,226,601)
Net cash used in financing activities	(138,795)	(224,227)
Increase in cash and cash equivalents	1,271,674	373,750
CASH AND CASH EQUIVALENTS		
Beginning of year	\$ 1,557,573	\$ 1,183,823
End of year	\$ 2,829,247	\$ 1,557,573
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest, net of amounts capitalized	\$ 1,393,497	\$ 1,433,885
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Land, buildings and equipment purchases included in accounts payable	\$ 1,704,151	\$ 318,174
Debt incurred for land, buildings, and equipment and funds restricted to investment in land, buildings and equipment	\$ 1,939,073	\$ -

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 1. Nature of Operations and Significant Accounting Policies

Bridgewater College (the "College") is a private, undergraduate, coeducational liberal arts college located in Bridgewater, Virginia. The College's curriculum emphasizes the liberal arts and sciences. Significant sources of revenue include tuition and fees, contributions, and investment returns.

Basis of financial statement presentation and accounting:

The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at 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.

The accompanying financial statements present information regarding the College's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. Expenses are reported as decreases in this classification. Any deficiency in the fair value of assets associated with individual donor-restricted endowment funds that fall below the level of the contribution are included in unrestricted net assets.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the College pursuant to those stipulations.

Permanently restricted net assets are amounts required by donors to be held in perpetuity; however, generally the income on these assets is available to meet various restricted and other operating needs. These net assets primarily include permanent endowment funds.

Cash and cash equivalents:

The College considers all cash and liquid investments with a maturity of up to three months to be cash and cash equivalents. Cash equivalents consist of commercial paper and loan participation agreements and are stated at cost, which approximates market value. Cash held for long-term investment is classified as investments or cash and investments restricted to investment in land, buildings and equipment. The College follows the common cash management practice of consolidating certain of its operating cash and cash equivalent accounts, which includes various designated and restricted current operating and plant accounts. As a result of this practice, cash and cash equivalents specifically associated with the original gift of certain designated and restricted monies can be spent from the consolidated accounts. When this occurs, the activity is accounted for by maintaining receivables and payables between the net asset classes.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

This may also cause the individual fund cash balances to be shown as negative if monies are due from another fund. The College has sufficient unrestricted funds to cover the designated or restricted monies spent.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values. The fair value of investments in equities, bonds, U.S. government securities, and short-term assets is determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of investment in hedge funds and various other alternative investments is determined by reference to the net asset values allocated to the College at the measurement date. Net realized and unrealized gains or losses are reflected in the statement of activities. Certain land and other investments which are not readily marketable are carried at cost.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of gift. Purchases and sales of investments are recorded on the trade date.

The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the external investment managers. The College believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Income and realized and unrealized net gains on investments of endowment and similar net asset classes are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income, including income earned on donor restricted endowment funds;
- As increases in unrestricted net assets in all other cases.

Land, buildings and equipment:

Land, buildings and equipment are stated at cost at the date of acquisition or at fair value at the date of gift. Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the assets. Depreciation is not calculated on land, collections or construction in progress.

Equipment is removed from the records and any gain or loss is recognized at the time of disposal. Expenditures for new construction, major renewals and replacements and equipment exceeding \$1,500 are capitalized.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Debt issue costs:

Debt issue costs are offset against the related debt and are being amortized over the term of the related financing agreement.

Accrued compensation:

The College accrues for salaries and all other compensation earned but not paid.

Student and other deposits:

Deposits and student fees applicable to academic sessions subsequent to the current year are deferred and recognized as revenue in subsequent periods.

Notes receivable and U.S. government grants refundable:

The College participates in the Federal Perkins Loan Program sponsored by the United States Government. Under this program, funds are loaned to qualified students and may be reloaned after collection. Student loan receivables related to this program are recorded as notes receivable. The portion of those funds contributed by the U.S. Government (that is, exclusive of the College's match funds) is ultimately refundable to the government.

The College accounts for its notes receivable at cost and recognizes interest income as it is earned. An allowance for doubtful accounts is based on prior collection history and individual circumstances of the borrower. Notes are considered past due after 30-45 days and accrue interest until written off when considered uncollectible.

Split-interest agreements:

The College participates in various split-interest agreements that are unconditional and irrevocable. These arrangements are established when a donor makes a gift to the College or a trust in which the College shares benefits with other beneficiaries. Generally, the College accounts for these agreements by recording its share of the related assets at fair market value (which approximates the present value of the estimated future cash receipts). Liabilities are recorded for any portion of the assets held for donors or other beneficiaries equal to the present value of the expected future payments to be made. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Contribution revenues are recognized at the dates the agreements are established for the difference between the assets and the liabilities.

If the College holds the assets or is the trustee, the assets are included in investments and the liabilities are included in trust and annuity obligations. If a third party is the trustee until the termination of the trust and then the remaining assets are transferred to the beneficiaries, the assets less related liabilities are included in contributions receivable. If the donor establishes a perpetual trust with a third party as trustee (the College will never receive the principal of the trust), the assets less related liabilities are

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

included in funds held in trust by others. The fair value of funds held in trust by others is determined by the present value of estimated future cash flows.

Net asset classifications of institutional funds:

The College holds institutional funds, principally endowment funds, subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). "Endowment" is a commonly used term to refer to the resources, including trusts and annuities, that have been restricted by the donor or designated by the Board that will be invested to provide future revenue to support the College's activities. The College's endowment consists of approximately 275 individual funds established for a variety of purposes. UPMIFA became effective in the state during 2008 superseding the Uniform Management of Institutional Funds Act (UMIFA). As titled, UPMIFA provides guidance and regulations relative to the management of applicable funds.

In response to UPMIFA, and effective July 1, 2008, the College adopted the provisions of the Financial Accounting Standards Board (FASB) Codification's Presentation of Financial Statements for Not-for-Profit Entities, which provides guidance on the net asset classification of donor restricted endowment funds for an organization that is subject to UPMIFA and also required related financial statement disclosures.

Interpretation of UPMIFA

The Board of Trustees of the College has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, 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 of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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 funds, (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, and (7) the investment policies of the College.

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 of donor-

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

restricted funds that organizations must hold in perpetuity or for a donor-specified period as well 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 various indices, depending on the investment, while assuming a moderate level of investment risk. The College expects its endowment funds to provide an average annual rate of return of approximately 5.0% plus inflation (measured as the consumer price index). Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objects, 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 uses investments in equities, bonds, real estate, and alternative strategies to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Related to Spending Policy

The College employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and to increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the years ended June 30, 2010 and 2009, the Board-approved spending formula for the endowment provided for an annual spending rate of not more than 5.0% of the average of the prior twelve quarters of the endowment market values as of the preceding December 31. If cash yield (interest and dividends) is less than the spending rate, appreciation can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment.

Funds with Deficiencies (“Underwater” Funds)

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 UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$166,296 and \$788,942 as of June 30, 2010 and 2009 respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation of 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 are classified as an increase in unrestricted net assets.

Contributions:

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, in the period the donor’s commitment is received. Unrestricted, unconditional promises to give are recognized as temporarily restricted operating revenues unless the donor explicitly stipulates its use to support current period activities.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as an adjustment to contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of the fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment, with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Operating results:

Operating activities in the statement of activities illustrate a measure of how the College is managing the resources available for its "current operations". Operations reflects all transactions that increase or decrease unrestricted net assets, except those of a capital nature – that is, capitalized for long-term investment or as land, buildings and equipment. Temporarily restricted net assets that are released from restrictions and satisfy an operating purpose are also classified as operating.

In accordance with the College's total return policy, as described further in Note 3, only the portion of total investment return available under this policy to meet operating needs is included in operating revenues.

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon periodic inventories of facilities. Interest expense on external debt is allocated to the activities that have most directly benefited from the proceeds of the external debt.

Advertising costs:

The College follows the policy of charging advertising costs to expense as incurred. Advertising expense was approximately \$71,000 and \$99,000 for the years ended June 30, 2010 and 2009, respectively.

Fair value measurements:

The College carries various assets and liabilities at fair value as required by Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification. Historically, the methods used to measure fair value were derived from a variety of account standards.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Fair value is defined 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. In determining fair value, a market-based approach is used which establishes that fair value is based on the “highest and best use.” Additionally, in accordance with the Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification, the College categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as reflected below. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Fair values are based on inputs other than quoted prices in Level 1 that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that were observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Fair values are based on unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

The estimated fair value for specific groups of financial instruments is presented within the notes applicable to such items. If not specifically presented, fair value is estimated to approximate the related carrying value. It was not considered practical to determine fair value of notes receivable from students under the U.S. government loan programs and related government advances because the notes receivable are non-marketable and can only be assigned to the U.S. government or its designees. These installment notes are due over terms of ten years, with interest at 5% per month per annum, and are carried at face value. Based upon current borrowing rates available to the College for similar borrowings, the carrying value of long-term debt approximates fair value.

Credit risk concentrations:

Financial instruments which potentially subject the College to concentrations of credit risk consist principally of cash, marketable securities, and student accounts receivable and loans receivable. The College places its cash with high credit quality financial institutions. From time to time, a portion of the College’s bank deposits may be in excess of federally insured limits. Concentration of credit risk for marketable securities is limited by the College’s policy of diversification of investments. Concentration of credit risk for student accounts receivable and loans receivable is limited due to a large base and geographic dispersion.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Income taxes:

The College is exempt from federal income tax under Section 501(c)(3) of the *Internal Revenue Code*.

Management has evaluated the effect of the guidance provided by U.S. generally accepted accounting principles on Accounting for Uncertainty in Income Taxes that became effective this year. Management believes that the College continues to satisfy the requirements of a tax-exempt organization at June 30, 2010. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the College had no uncertain income tax positions at June 30, 2010.

Reclassifications:

Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

Note 2. Contributions Receivable

Contributions receivable consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Unconditional promises to give cash	\$ 2,451,718	\$ 1,900,955
Various charitable remainder trusts held by others	<u>1,391,570</u>	<u>1,387,507</u>
Total	<u>\$ 3,843,288</u>	<u>\$ 3,288,462</u>
Expected to be collected in:		
Less than one year	\$ 568,489	\$ 537,864
One to five years	1,901,250	1,208,787
More than five years	<u>3,291,340</u>	<u>3,240,960</u>
Gross contributions receivable	5,761,079	4,987,611
Less:		
Actuarial present value of future payments	(1,156,773)	(1,147,305)
Discount to net present value at 2.3%-5%	(274,729)	(231,383)
Allowance for uncollectible contributions	<u>(486,289)</u>	<u>(320,461)</u>
Total	<u>\$ 3,843,288</u>	<u>\$ 3,288,462</u>

The ownership of contributions receivable for each class of net assets as of June 30 is as follows:

	<u>2010</u>	<u>2009</u>
Temporarily restricted	\$ 2,023,442	\$ 1,838,770
Permanently restricted	<u>1,819,846</u>	<u>1,449,692</u>
Total	<u>\$ 3,843,288</u>	<u>\$ 3,288,462</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 2. Contributions Receivable (Continued)

Conditional promises receivable represent the amounts which have been included in donors' wills. These gifts will be recorded as income when the donor estates are in probate. Management estimates that these conditional contributions receivable approximated \$18.7 and \$11.2 million at June 30, 2010 and 2009.

Note 3. Investments

Investments are comprised of the following as of June 30:

	<u>2010</u>		<u>2009</u>	
Held at market:				
Equities	\$ 31,802,056	50.9%	\$ 28,599,720	52.1%
Alternatives	10,952,491	17.5	8,098,629	14.7
Bonds	15,937,628	25.5	14,676,964	26.7
Cash, cash equivalents and temporary investments	34,839	0.1	56,247	0.1
Other investments	788,554	1.2	690,150	1.3
Real estate	1,044,584	1.7	871,669	1.6
Held at cost, less accumulated depreciation:				
Real estate	<u>1,930,200</u>	<u>3.1</u>	<u>1,909,295</u>	<u>3.5</u>
Total	<u>\$ 62,490,352</u>	<u>100.0%</u>	<u>\$ 54,902,674</u>	<u>100.0%</u>

The ownership of investments for each class of net assets as of June 30 is as follows:

	<u>2010</u>	<u>2009</u>
Unrestricted	\$ 7,033,872	\$ 5,830,644
Temporarily restricted	13,582,256	10,562,912
Permanently restricted	<u>41,874,224</u>	<u>38,509,118</u>
Total	<u>\$ 62,490,352</u>	<u>\$ 54,902,674</u>

The fair value of investment asset classifications are:

	<u>2010</u>	<u>2009</u>
Endowment:		
Managed	\$ 52,027,456	\$ 44,971,512
All other	2,558,006	2,456,523
Trusts and annuities	7,269,541	6,890,064
Plant	201,371	195,644
Current	409,534	365,606
Agencies	<u>24,444</u>	<u>23,325</u>
Total	<u>\$ 62,490,352</u>	<u>\$ 54,902,674</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 3. Investments (Continued)

Investment activity for the years ended June 30 is reflected in the table below:

	<u>2010</u>	<u>2009</u>
Investments, beginning	\$ 54,902,674	\$ 65,032,278
Gifts available for investment	<u>1,964,187</u>	<u>3,463,053</u>
Investments before total return and other activity	<u>56,866,861</u>	<u>68,495,331</u>
Investment returns		
Dividends, interest and rental income (net of expenses in 2010 of \$217,237; in 2009 of \$176,984)	<u>1,059,968</u>	<u>1,468,897</u>
Investment return, net of amount available to support current operations per statement of activities	4,108,713	(12,409,579)
Add spending in excess of cash yield	<u>2,067,476</u>	<u>1,845,009</u>
Net realized and unrealized gains (losses)	<u>6,176,189</u>	<u>(10,564,570)</u>
Other activity	<u>(88,465)</u>	<u>(42,442)</u>
Total return on investments	<u>7,147,692</u>	<u>(9,138,115)</u>
Amounts appropriated for operations, net transfers to operational accounts and other activity	<u>(1,524,201)</u>	<u>(4,454,542)</u>
Investments, ending	<u>\$ 62,490,352</u>	<u>\$ 54,902,674</u>

The following schedule summarizes total investment return and its classification in the statements of activities for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Investment income	\$ 1,059,968	\$ 1,468,897
Net realized and unrealized gains (losses) on investments	6,176,189	(10,564,570)
Other activity	<u>(88,465)</u>	<u>(42,442)</u>
Total return on investments	<u>\$ 7,147,692</u>	<u>\$ (9,138,115)</u>
<u>Included in Statement of Activities as follows:</u>		
Operating – investment income, endowment available to support current operations	\$ 2,797,157	\$ 2,725,660
Non-operating:		
Investment income	241,822	545,804
Investment return, net of amount available to support current operations	<u>4,108,713</u>	<u>(12,409,579)</u>
Total return on investments	<u>\$ 7,147,692</u>	<u>\$ (9,138,115)</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 3. Investments (Continued)

As a result of financial market fluctuations, the value of the College's investments may have declined from year end values and that decline could be material.

Note 4. Land, Buildings and Equipment

Land, buildings and equipment consists of the following at June 30:

	Estimated Useful Life	2010	2009
Buildings and improvements	20-45 years	\$ 64,692,888	\$ 64,042,368
Utilities and improvements	20-40 years	9,322,441	9,250,121
Vehicles, furniture and equipment	3-20 years	8,105,976	8,542,552
Library books	20 years	<u>3,841,705</u>	<u>3,814,638</u>
Total depreciable cost		85,963,010	85,649,679
Less accumulated depreciation and amortization		<u>(35,641,958)</u>	<u>(33,676,875)</u>
Total depreciable cost, net		50,321,052	51,972,804
Land		884,192	850,508
Reuel B. Pritchett Museum collection		61,099	61,099
Construction in progress		<u>3,948,561</u>	<u>401,147</u>
Total land, buildings and equipment, net		<u>\$ 55,214,904</u>	<u>\$ 53,285,558</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 5. Debt

The College's debt consists of the following as of June 30:

	2010	2009
<p>Industrial Development Authority Bonds originated July 2003 for original amount of \$10,000,000, with a current balance of \$9,185,000 and \$9,385,000 at June 30, 2010 and 2009, respectively (less unamortized discount and debt issue costs of \$212,964 and \$222,325 at June 30, 2010 and 2009, respectively). Payable in semi-annual installments with balance due April 1, 2033. Principal payments range from \$210,000 in April 2011 to \$945,000 in April 2014. Interest rates range from 2.45% to 5.375%. Unsecured.</p>	\$ 8,972,034	\$ 9,162,675
<p>Industrial Development Authority Bonds originated August 2003 for original amount of \$15,160,000, with a current balance of \$12,570,000 and \$13,260,000 at June 30, 2010 and 2009, respectively (less unamortized discount and debt issue costs of \$322,329 and \$348,642 at June 30, 2010 and 2009, respectively). Payable in semi-annual installments with balance due October 1, 2023. Principal payments range from \$75,000 in October 2012 to \$1,375,000 in October 2023. Interest rates range from 2.00% to 5.00%. Unsecured.</p>	12,247,671	12,911,358
<p>Industrial Development Authority Bonds originated August 2006 for original amount of \$5,425,000, with a current balance of \$4,145,000 and \$4,225,000 at June 30, 2010 and 2009, respectively (less unamortized discount and debt issue costs of \$163,550 and \$171,401 at June 30, 2010 and 2009 respectively). Payable in semi-annual installments with balance due April 1, 2031. Principal payments range from \$75,000 in April 2011 to \$460,000 in April 2031. Interest rates range from 4.00% to 5.00%. Unsecured.</p>	3,981,450	4,053,599
<p>Industrial Development Authority Bonds originated December 2007 for original amount of \$3,000,000, with a current balance of \$2,615,199 and \$2,778,442 at June 30, 2010 and 2009, respectively (less unamortized discount and debt issue costs of \$30,266 and \$32,703 at June 30, 2010 and 2009 respectively). Payable in monthly installments of \$21,626 with balance due December 1, 2022. The bonds are subject to an optional tender for purchase on January 1, 2015. The interest rate is 3.56%. Unsecured.</p>	2,584,933	2,745,742

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 5. Debt (Continued)

The College's debt consists of the following as of June 30: (Continued)

	2010	2009
Note payable to First-Citizens Bank & Trust Company, for original amount of \$133,548, payable in annual installments of \$29,909 through July 2009 including interest at 6.00%, secured by computer equipment. \$	-	\$ 28,216
Note payable to First-Citizens Bank & Trust Company, for original amount of \$111,834, payable in annual installments of \$25,522 through July 2010 including interest at 6.85%, secured by computer equipment.	23,805	46,060
Note payable to First-Citizens Bank & Trust Company, for original amount of \$133,845, payable in annual installments of \$30,146 through July 2011 including interest at 6.32%, secured by computer equipment.	55,191	80,198
Note payable to First-Citizens Bank & Trust Company, for original amount of \$149,989, payable in annual installments of \$40,423 through July 2011 including interest at 5.25%, secured by computer equipment.	74,919	109,567
Note payable to First-Citizens Bank & Trust Company, for original amount of \$139,073, payable in annual installments of \$37,480 through July 2012 including interest at 5.25%, secured by computer equipment.	101,592	-
Total debt	\$ 28,041,595	\$ 29,137,415

Debt matures as follows:

Year ending June 30,		
2011	\$	1,247,247
2012		1,275,154
2013		1,246,268
2014		1,262,228
2015		1,334,039
2016 and later years		21,676,659
Total debt	\$	28,041,595

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 6. Net Assets

Net assets as of June 30 consist of the following:

	2010	2009
Unrestricted		
Funds functioning as endowment:		
Quasi endowment funds	\$ 3,300,376	\$ 3,125,313
Amounts held for trust and annuity payments	966,709	693,946
Accumulated losses resulting in “underwater” endowments	(166,296)	(788,942)
Investment in land, building and equipment, net of debt	23,226,129	23,748,949
College contributions to student loan funds	2,558,395	2,545,399
Amounts held for future operations and financial aid	9,815,746	6,038,975
Total unrestricted net assets	39,701,059	35,363,640
Temporarily restricted		
Funds functioning as endowment:		
Endowment amounts restricted for future operations	827,449	777,561
Accumulated endowment investment return, net of amounts spent	11,612,352	8,693,245
Amounts held for trust and annuity payments	463,615	515,216
Restricted for future operations	1,629,861	3,506,265
Restricted for buildings and equipment	105,282	116,432
Contributions receivable	2,023,442	1,838,770
Total temporarily restricted net assets	16,662,001	15,447,489
Permanently restricted		
Restricted in perpetuity; only the income is expendable:		
Endowment principal	38,773,154	36,313,014
Trusts and annuities	1,260,288	1,129,223
Funds held in trust by others	120,297	112,943
Contributions receivable	1,819,846	1,449,692
Student loan funds	19,874	19,874
Total permanently restricted net assets	41,993,459	39,024,746
Total net assets	\$ 98,356,519	\$ 89,835,875

Temporarily restricted net assets are subject to both purpose and time restrictions, and are expendable for general operations, financial aid, and operations, maintenance and acquisition of land, buildings and equipment. Temporarily restricted accumulated endowment investment return, net of amounts spent, is restricted for the purposes reflected for permanently restricted net assets. Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support general operations, financial aid and professorships.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 7. Tuition and Fees, Net of Financial Aid

Tuition and fees include regular session tuition for the College's regular and summer sessions as well as miscellaneous fees, such as application, graduation, automobile and late fees.

Revenues received for student tuition and fees, net of financial aid, consists of the following for the years ended June 30:

	<u>2010</u>		<u>2009</u>	
Tuition and fees	\$ 38,246,810	100.0%	\$ 34,046,693	100.0%
Less financial aid:				
Institutional, non-funded	(16,603,891)	(43.4)	(14,207,124)	(41.7)
Funded:				
Endowed and other	(1,989,962)	(5.2)	(1,989,326)	(5.9)
Federal grants	<u>(77,738)</u>	<u>(0.2)</u>	<u>(76,462)</u>	<u>(0.2)</u>
Total financial aid	<u>(18,671,591)</u>	<u>(48.8)</u>	<u>(16,272,912)</u>	<u>(47.8)</u>
Tuition and fees, net of financial aid	<u>\$ 19,575,219</u>	<u>51.2%</u>	<u>\$ 17,773,781</u>	<u>52.2%</u>

Institutional financial aid is awarded to students based upon academic merit and need and is applied to billed tuition and fees. Financial aid does not include payments made to students for services rendered to the College. However, the College does participate in work study programs; these expenses, which totaled \$203,676 and \$144,000 for the years ended June 30, 2010 and 2009, respectively, are included in the appropriate functional expense categories in the statements of activities. Of these amounts, the federal government contributed \$154,153 and \$108,407, respectively.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 8. Net Assets Released from Restrictions and Reclassifications

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Restrictions were satisfied as follows for the years ended June 30:

	2010	2009
Operating:		
Financial aid	\$ 2,221,339	\$ 2,605,789
General operations and maintenance	1,128,293	1,472,963
Expiration of time restrictions on contributions receivable	291,413	197,086
Total operating	3,641,045	3,735,838
Non-operating:		
Buildings and equipment	63,419	1,912
Reclassifications	535,612	53,452
Total non-operating	599,031	55,364
Total	\$ 4,240,076	\$ 3,791,202

Reclassifications to permanently restricted net assets, as reflected in the statement of activities, occur when a donor applies or changes restrictions on contributions previously recorded.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 9. Operating Expenses

Operating expenses incurred for the years ended June 30 are as follows:

	<u>2010</u>		<u>2009</u>	
Salaries and wages	\$ 15,640,723	43.9%	\$ 15,006,190	43.3%
Employee benefits, including payroll taxes	4,089,620	11.5	3,950,208	11.4
Total compensation and benefits	19,730,343	55.4	18,956,398	54.7
Utilities	1,618,626	4.6	1,818,437	5.3
Depreciation and amortization	2,692,925	7.5	2,716,630	7.8
Interest expense	1,383,158	3.9	1,426,657	4.1
Student dining services contract	2,352,785	6.6	2,142,858	6.2
Building maintenance and repairs	1,202,372	3.4	1,082,519	3.1
Travel	469,834	1.3	473,631	1.4
Insurance	170,917	0.5	201,425	0.6
Software maintenance and licenses	354,543	1.0	340,618	1.0
Other	5,621,630	15.8	5,458,252	15.8
Total operating expenses	<u>\$ 35,597,133</u>	<u>100.0%</u>	<u>\$ 34,617,425</u>	<u>100.0%</u>
Program services	\$ 31,361,074	88.1	\$ 30,878,743	89.2
Support services	4,236,059	11.9	3,738,682	10.8
	<u>\$ 35,597,133</u>	<u>100.0%</u>	<u>\$ 34,617,425</u>	<u>100.0%</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 9. Operating Expenses (Continued)

Costs related to the operations and maintenance of the physical plant, including depreciation, and interest expense are allocated to operating programs and supporting activities, as follows:

Year Ended June 30, 2010

	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses
Education and general:			
Instruction	\$ 7,841,760	\$ 2,677,911	\$ 10,519,671
Academic support	3,281,387	738,733	4,020,120
Student services	6,439,557	1,471,100	7,910,657
Institutional support	5,332,392	411,220	5,743,612
Auxiliary services	4,269,274	3,133,799	7,403,073
Operations and maintenance of physical plant	4,356,680	(4,356,680)	-
Depreciation and amortization	2,692,925	(2,692,925)	-
Interest expense	1,383,158	(1,383,158)	-
Total	<u>\$ 35,597,133</u>	<u>\$ -</u>	<u>\$ 35,597,133</u>

Year Ended June 30, 2009

	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses
Education and general:			
Instruction	\$ 7,488,231	\$ 2,749,179	\$ 10,237,410
Academic support	3,312,640	770,129	4,082,769
Student services	6,356,133	1,480,971	7,837,104
Institutional support	4,922,646	397,493	5,320,139
Auxiliary services	4,067,699	3,072,304	7,140,003
Operations and maintenance of physical plant	4,326,789	(4,326,789)	-
Depreciation and amortization	2,716,630	(2,716,630)	-
Interest expense	1,426,657	(1,426,657)	-
Total	<u>\$ 34,617,425</u>	<u>\$ -</u>	<u>\$ 34,617,425</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 9. Operating Expenses (Continued)

Allocation of costs related to the operation and maintenance of the physical plant, including depreciation and interest expense to functional expense categories for the years ended June 30, 2010 and 2009, approximated:

	2010	2009
Instruction	31.7%	32.4%
Academic support	8.8	9.1
Student services	17.4	17.5
Institutional support	4.9	4.7
Auxiliary services	37.2	36.3
	100%	100%

Fundraising costs totaled approximately \$1,081,986 and \$909,000 for the years ended June 30, 2010 and 2009, respectively.

Note 10. Employee Benefits

Retirement benefits are provided for all employees through a defined contribution retirement plan funded by direct payments to the Teacher's Insurance and Annuity Association – College Retirement Equities Fund. The College's contributions for the years ended June 30, 2010 and 2009 were up to 6% of the salaries for eligible employees. The amounts charged to operations under this plan were \$830,867 and \$786,589, respectively.

Note 11. Commitments and Contingencies

The College participated in a student loan program administered by an outside entity. Under this program the College is contingently liable for up to 26% of the total outstanding principal balance of loans made prior to July 1, 2004, net of reserve fees of 8%. At June 30, 2010, the outstanding principal balance of loans made under this original program was approximately \$2.6 million. The structure of the loan pool was significantly amended on July 1, 2004 so that any contingent liability on loans made after that date would be fully funded by reserve fees.

Final expenditure reports of grants and contracts submitted to certain granting agencies in current and prior years are subject to audit by such agencies. As a result, the reimbursed expenditures are subject to adjustment. The effect of such adjustments, if any, is not determinable at this time. Management is of the opinion that the liability, if any, would not have a material effect on the College's financial position.

The College's students receive a substantial amount of support from state and federal Student Financial Assistance Programs. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on the College's programs and activities.

The College contracts with an outside vendor for its student dining services. Costs per year are negotiated on a yearly basis. The College expects to incur approximately \$2.8 million in cost under this contract for the year ended June 30, 2011.

The College entered into a consortium with eleven other private colleges in Virginia to provide employee health care benefits on January 1, 2010. The College expects to incur approximately \$ 1.3 million in employer-funded health insurance premium cost for the year ending June 30, 2011. The College is obligated by terms of the consortium agreement to remain a member for a minimum of 5 years (beginning January 1, 2010).

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 12. Endowment

“Endowment” is a commonly used term to refer to the resources that have been restricted by donors or designated by the Board that will be invested to provide future revenue to support the College’s activities.

A summary of assets, liabilities and net assets of the endowment, including trust and annuity funds, is as follows as of June 30:

	<u>2010</u>	<u>2009</u>
ASSETS		
Other accounts receivable and assets	\$ 145,085	\$ 643,553
Notes receivable, other	-	62,282
Contributions receivable	1,819,846	1,449,692
Investments	61,855,002	54,318,099
Funds held in trust by others	120,297	112,943
Total assets	<u>\$ 63,940,230</u>	<u>\$ 56,586,569</u>
LIABILITIES AND NET ASSETS		
Accounts payable accrued and other liabilities	\$ 66,947	\$ 23,443
Trust and annuity obligations	4,511,983	4,528,235
Due to other funds	383,510	13,680
Total liabilities	<u>4,962,440</u>	<u>4,565,358</u>
Net assets:		
Unrestricted:		
Quasi endowment	3,300,376	3,125,313
Accumulated losses resulting in “underwater” endowments	(166,296)	(788,942)
Amounts held for trust and annuity payments	966,709	693,946
Total unrestricted net assets	<u>4,100,789</u>	<u>3,030,317</u>
Temporarily restricted:		
Endowment amounts restricted for future operations	827,449	777,561
Accumulated endowment investment return, net of amounts spent	11,612,352	8,693,245
Amounts held for trust and annuity payments	463,615	515,216
Total temporarily restricted net assets	<u>12,903,416</u>	<u>9,986,022</u>
Permanently restricted:		
True endowment	38,773,154	36,313,014
Trusts and annuities	1,260,288	1,129,223
Funds held in trust by others	120,297	112,943
Contributions receivable	1,819,846	1,449,692
Total permanently restricted net assets	<u>41,973,585</u>	<u>39,004,872</u>
Total net assets	<u>58,977,790</u>	<u>52,021,211</u>
Total liabilities and net assets	<u>\$ 63,940,230</u>	<u>\$ 56,586,569</u>

Management estimates that the market values of real estate held as endowment fund investments exceed their recorded costs by \$2.7 million at June 30, 2010 and 2009. Including these market-value estimates in endowment net assets result in a total value of approximately \$61.7 million and \$54.7 million, respectively.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 12. Endowment (Continued)

The College's endowment consisted of the following net assets:

As of June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Funds held by the College				
Donor restricted	\$ (166,296)	\$ 12,903,416	\$ 41,853,288	\$ 54,590,408
College designated	4,267,085	-	-	4,267,085
Donor-restricted funds held in trust by others	-	-	120,297	120,297
Total	<u>\$ 4,100,789</u>	<u>\$ 12,903,416</u>	<u>\$ 41,973,585</u>	<u>\$ 58,977,790</u>

As of June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Funds held by the College				
Donor restricted	\$ (788,942)	\$ 9,986,022	\$ 38,891,929	\$ 48,089,009
College designated	3,819,259	-	-	3,819,259
Donor-restricted funds held in trust by others	-	-	112,943	112,943
Total	<u>\$ 3,030,317</u>	<u>\$ 9,986,022</u>	<u>\$ 39,004,872</u>	<u>\$ 52,021,211</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 12. Endowment (Continued)

Changes in the College's endowment are as follows:

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 3,030,317	\$ 9,986,022	\$ 39,004,873	\$ 52,021,212
Contributions	38,297	-	2,164,484	2,202,781
Total investment return	1,584,329	5,159,353	379,619	7,123,301
Appropriation for expenditure	(242,936)	(2,557,620)	(213)	(2,800,769)
Change in split-interest agreement	(315,736)	(116,590)	(89,980)	(522,306)
Transfers to create college designated funds	36,970	-	-	36,970
Transfer	-	505,601	535,612	1,041,213
Other	(30,452)	(73,350)	(20,810)	(124,612)
Endowment net assets, ending	<u>\$ 4,100,789</u>	<u>\$ 12,903,416</u>	<u>\$ 41,973,585</u>	<u>\$ 58,977,790</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 12. Endowment (Continued)

Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 3,646,383	\$ 19,194,500	\$ 38,898,865	\$ 61,739,748
Contributions	-	-	834,840	834,840
Total investment return	(2,074,411)	(6,676,484)	(431,282)	(9,182,177)
Appropriation for expenditure	(148,054)	(2,579,963)	(2,102)	(2,730,119)
Change in split-interest agreement	(181,801)	66,031	(327,172)	(442,942)
Transfers to create college designated funds	1,832,780	-	-	1,832,780
Transfer	(12,443)	54	43,452	31,064
Reclassification	-	(10,000)	10,000	-
Other	<u>(32,137)</u>	<u>(8,116)</u>	<u>(21,729)</u>	<u>(61,983)</u>
Endowment net assets, ending	<u>\$ 3,030,317</u>	<u>\$ 9,986,022</u>	<u>\$ 39,004,873</u>	<u>\$ 52,021,211</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 13. Fair Value Measurements

The following is a summary of the inputs used to determine the fair value of financial assets and liabilities measured on a recurring basis.

The values as of June 30, 2010:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investments:				
Equities	\$ 31,802,056	\$ 15,127,690	\$ 6,332,835	\$ 10,341,531
Alternatives	10,952,491	555,219	-	10,397,272
Bonds	15,937,628	13,232,014	-	2,705,614
Cash & equivalents and temporary investments	34,839	34,839	-	-
Other investments	1,833,138	379,579	-	1,453,559
Funds held in trust by others	120,297	-	120,297	-
Total assets	<u>\$ 60,680,449</u>	<u>\$ 29,329,341</u>	<u>\$ 6,453,132</u>	<u>\$ 24,897,976</u>

The values as of June 30, 2009:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investments:				
Equities	\$ 28,599,720	\$ 14,240,808	\$ 5,609,709	\$ 8,749,203
Alternatives	8,098,629	-	-	8,098,629
Bonds	14,676,964	11,701,897	-	2,975,067
Cash & equivalents and temporary Investments	56,247	56,247	-	-
Other investments	1,561,819	325,103	-	1,236,716
Funds held in trust by others	112,943	-	112,943	-
Total assets	<u>\$ 53,106,322</u>	<u>\$ 26,324,055</u>	<u>\$ 5,722,652</u>	<u>\$ 21,059,615</u>

The College invests long-term assets with multiple investment managers to achieve a diversified portfolio in accordance with its investment policies. In accordance with the requirements of the Fair Value Measurements and Disclosures standard, a significant portion of the College's investments are classified as having used Level 3 inputs. The College mitigates the risk of investing in these types of investments by engaging an independent investment consultant who provides research and recommendations for the selection of investment managers and ongoing monitoring of each manager. This monitoring includes regular site visits, written due diligence reports and regular, comprehensive reviews of the managers' valuation methodology, internal controls, and management strength. The

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 13. Fair Value Measurements (Continued)

College's Board of Trustees is responsible for all investment decisions, some of which have been delegated to its Investment Committee, which receives monthly valuation reports, meets quarterly with the independent consultant and monitors compliance with institutional investment policies.

The College has no financial liabilities measured at fair value on a recurring basis as of June 30, 2010 and June 30, 2009.

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value.

The value as of June 30, 2010:

	<u>Investments</u>
Balance, beginning	\$21,059,615
Change in realized and unrealized appreciation/depreciation	2,430,628
Net purchases (sales)	<u>1,407,733</u>
Balance, ending	<u>\$24,897,976</u>

The value as of June 30, 2009

	<u>Investments</u>
Balance, beginning	\$23,926,460
Change in realized and unrealized appreciation/depreciation	(3,927,751)
Net purchases (sales)	<u>1,060,906</u>
Balance, ending	<u>\$21,059,615</u>

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 13. Fair Value Measurements (Continued)

Additional information regarding Level 3 investments at June 30, 2010 is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Large/Mid Cap Equity Composite (a)	\$ 5,461,207	\$ -	Daily, 48 hours	Daily, 60 days
Small Cap Equity Composite (b)	3,265,539	-	Annual	60 days
High Yield Bond Composite (c)	2,705,614	-	Monthly	10 days
Multi-Strategy Hedge Fund (d)	4,518,759	-	Locked until 12/31/11	
Long/Short Equity Hedge Fund (e)	3,648,577	-	Annual/ locked until 12/31/11	60 days
Real Estate (f)	1,044,584	3,452,625		
Private Equity Composite (g)	2,647,139	1,800,000		
Commodities (h)	1,197,584	-	Monthly	10 days
Mutual Funds (i)	408,975	-	Daily	Daily
	<u>\$ 24,897,978</u>	<u>\$ 5,252,625</u>		

- (a) This category includes an investment that seeks to outperform the total return, before expenses, of the S&P 500 index. This is accomplished by combining a non-leveraged position in S&P 500 Index futures with an actively managed short duration fixed income portfolio.
- (b) This category includes a diversified portfolio of small capitalization stocks. The portfolio encompasses a broad range of sector exposures.
- (c) This category includes corporate bonds that are below investment grade at time of purchase.
- (d) This category includes hedge funds and funds of hedge funds that invest across multiple strategies. Sub-strategies include, but are not limited to: event driven, fixed income arbitrage, long/short equity, distressed debt, high yield debt arbitrage, and relative value.
- (e) This category includes hedge funds and funds of hedge funds that invest using both long and short equity positions. The funds of hedge funds are diversified across geographic regions, industry sectors, and market capitalization.

BRIDGEWATER COLLEGE
Notes to Financial Statements
June 30, 2010

Note 13. Fair Value Measurements (Continued)

- (f) This category includes real estate holdings and funds of real estate funds. The funds of real estate funds are diversified across geographic regions and property type. These investments cannot be redeemed. Instead, distributions are received by the College through liquidation of the underlying assets of the funds.
- (g) This category includes funds of private equity funds that invest in venture capital, buyout, and non-US private equity. The funds are diversified across geographic regions and industry sectors. These investments cannot be redeemed. Instead, distributions are received by the College through liquidation of the underlying assets of the funds.
- (h) This category includes an investment that seeks to replicate the total return, before expenses, of the Mount Lucas Management Index. The index is a diversified portfolio of 22 liquid futures contracts traded on U.S. and foreign exchanges. Sectors traded include commodities, currencies and global fixed income.
- (i) This category includes funds invested in an international equity fund and a large-cap growth fund. Both funds seek long-term return mainly through capital appreciation. The international equity fund primarily invests in equity securities of foreign issuers.

Note 14. Line of credit

In June 2010, the College signed a line-of-credit for construction expenses pending the disbursement of an approved loan from the United States Department of Agriculture-Rural Development (USDA-RD). The College borrowed \$1,800,000 from the line prior to the end of the fiscal year. The maximum amount of the line is \$6,750,000. The maturity of the line is June 24, 2011 and the interest rate is LIBOR plus 2.0%.

Note 15. Subsequent events

The College has been approved to receive two loans totaling \$14,000,000 from USDA-RD. The funds will be used for construction of student housing and renovations/additions to existing student housing. The loans will be repaid over forty years at a fixed rate of interest of 3.75%.

Subsequent events were considered for potential recognition and/or disclosure in the financial statements through September 30, 2010, the date the financial statements were available to be issued.