



**BENTLEY COLLEGE**

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)



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## **Independent Auditors' Report**

The Board of Trustees  
Bentley College:

We have audited the accompanying statements of financial position of Bentley College (the College) as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

August 20, 2004

## BENTLEY COLLEGE

### Statements of Financial Position

June 30, 2004 and 2003

(Dollars in thousands)

| <b>Assets</b>                                       | <b>2004</b>       | <b>2003</b>    |
|---|-------------------|----------------|
| Cash and cash equivalents                           | \$ 5,503          | 2,390          |
| Accounts receivable, net (note 3)                   | 1,523             | 1,426          |
| Pledges receivable, net (note 4)                    | 18,868            | 20,760         |
| Prepaid expenses and other assets                   | 3,443             | 2,853          |
| Student loans, net (notes 3 and 10)                 | 8,326             | 7,685          |
| Deposits with bond trustees                         | 6,927             | 3,202          |
| Interest rate swap (notes 7 and 8)                  | 118               | —              |
| Investments (note 5)                                | 169,902           | 136,269        |
| Property, plant, and equipment, net (notes 6 and 7) | 212,385           | 199,243        |
| Total assets  | <u>\$ 426,995</u> | <u>373,828</u> |
| <b>Liabilities and Net Assets</b>                   |                   |                |
| Liabilities:  |                   |                |
| Accounts payable and accrued liabilities            | \$ 14,460         | 14,270         |
| Student deposits and deferred income                | 5,965             | 4,453          |
| Annuity obligations                                 | 4,894             | 4,628          |
| Bonds and loan payable, net (notes 7 and 8)         | 131,184           | 104,276        |
| Interest rate swap (notes 7 and 8)                  | —                 | 2,180          |
| Postretirement benefits (note 9)                    | 4,338             | 4,094          |
| Refundable U.S. government grants (note 10)         | 6,691             | 6,475          |
| Total liabilities                                   | <u>167,532</u>    | <u>140,376</u> |
| Net assets:   |                   |                |
| Unrestricted  | 175,083           | 158,810        |
| Temporarily restricted (note 11)                    | 52,482            | 44,988         |
| Permanently restricted (note 12)                    | 31,898            | 29,654         |
| Total net assets                                    | <u>259,463</u>    | <u>233,452</u> |
| Total liabilities and net assets                    | <u>\$ 426,995</u> | <u>373,828</u> |

See accompanying notes to financial statements.

**BENTLEY COLLEGE**  
 Statements of Activities  
 Years ended June 30, 2004 and 2003  
 (Dollars in thousands)

|  | <b>2004</b> | <b>2003</b> |
|--|-------------|-------------|
| Changes in unrestricted net assets:  |             |             |
| Operating:   |             |             |
| Revenues:  |             |             |
| Tuition and fees   | \$ 120,808  | 111,019     |
| Residence hall and dining  | 27,865      | 26,848      |
| Less scholarships and aid  | (31,789)    | (30,115)    |
| Tuition, fees, residence hall and dining, net                                | 116,884     | 107,752     |
| Contributions  | 1,694       | 4,301       |
| Investment earnings (note 5)   | 4,242       | 4,666       |
| Grants and other sources   | 2,750       | 2,898       |
| Other auxiliary enterprises  | 2,883       | 2,666       |
| Total operating revenues   | 128,453     | 122,283     |
| Net assets released from restrictions (note 13)                              | 3,768       | 3,262       |
| Total operating revenues and net assets released from restrictions           | 132,221     | 125,545     |
| Expenses:  |             |             |
| Instruction  | 47,815      | 47,210      |
| Academic support   | 12,068      | 11,397      |
| Student services   | 20,829      | 19,599      |
| Institutional support  | 22,744      | 22,138      |
| Auxiliary enterprises  | 25,525      | 23,889      |
| Total expenses   | 128,981     | 124,233     |
| Increase in unrestricted net assets from operating activities                | 3,240       | 1,312       |
| Nonoperating activities:   |             |             |
| Contributions  | 297         | —           |
| Investment return less amounts used in operations (note 5)                   | 11,604      | (2,446)     |
| Net assets released from restrictions – capital and other projects (note 13) | 822         | 900         |
| Change in value of interest rate swap agreement (note 8)                     | 2,298       | (2,180)     |
| Clarification of donor intent (note 14)                                      | (1,792)     | —           |
| Change in value of life income funds   | (196)       | (107)       |
| Change in unrestricted net assets from nonoperating activities               | 13,033      | (3,833)     |
| Change in unrestricted net assets  | 16,273      | (2,521)     |
| Changes in temporarily restricted net assets:                                |             |             |
| Contributions  | 2,035       | 2,676       |
| Investment earnings (note 5)   | 9,106       | 1,354       |
| Change in value of life income funds   | (194)       | (98)        |
| Clarification of donor intent (note 14)                                      | 1,137       | —           |
| Net assets released from restrictions (note 13)                              | (4,590)     | (4,162)     |
| Change in temporarily restricted net assets                                  | 7,494       | (230)       |
| Changes in permanently restricted net assets:                                |             |             |
| Contributions  | 1,589       | 2,903       |
| Clarification of donor intent (note 14)                                      | 655         | —           |
| Increase in permanently restricted net assets                                | 2,244       | 2,903       |
| Change in net assets   | 26,011      | 152         |
| Net assets as of beginning of year   | 233,452     | 233,300     |
| Net assets as of end of year   | \$ 259,463  | 233,452     |

See accompanying notes to financial statements.

**BENTLEY COLLEGE**

Statements of Cash Flows

Years ended June 30, 2004 and 2003

(Dollars in thousands)

|   | <u>2004</u>            | <u>2003</u>         |
|---|------------------------|---------------------|
| Operating activities:   |                        |                     |
| Change in net assets  | \$ 26,011              | 152                 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                        |                     |
| Depreciation and amortization   | 12,861                 | 11,377              |
| Contributions of property, plant, and equipment   | —                      | (2,726)             |
| Loss on disposal of property, plant, and equipment  | 660                    | —                   |
| Contributions for long-term purposes  | (2,741)                | (3,805)             |
| Net realized and unrealized gain on investments   | (22,056)               | (1,081)             |
| Change in other assets  | 1,617                  | (1,061)             |
| Change in other liabilities   | 1,360                  | 2,937               |
| Change in value of interest rate swap agreement   | (2,298)                | 2,180               |
| Net cash provided by operating activities   | <u>15,414</u>          | <u>7,973</u>        |
| Investing activities:   |                        |                     |
| Proceeds from sales and maturities of investments   | 36,979                 | 21,523              |
| Purchases of investments  | (48,558)               | (20,848)            |
| Purchases of property, plant and equipment  | (28,657)               | (18,155)            |
| Proceeds from sale of property, plant and equipment   | 2,726                  | —                   |
| Change in deposits with bond trustees   | (3,725)                | 430                 |
| Net cash used in investing activities   | <u>(41,235)</u>        | <u>(17,050)</u>     |
| Financing activities:   |                        |                     |
| Contributions for long-term purposes  | 2,741                  | 3,805               |
| Proceeds from borrowings  | 30,100                 | 6,897               |
| Payments on bonds   | (3,241)                | (7,117)             |
| Payments of bond issuance costs   | (1,148)                | —                   |
| Increase in annuity obligations   | 266                    | 399                 |
| Increase in refundable U.S. government grants   | 216                    | 44                  |
| Net cash provided by financing activities   | <u>28,934</u>          | <u>4,028</u>        |
| Change in cash and cash equivalents   | 3,113                  | (5,049)             |
| Cash and cash equivalents as of beginning of year   | <u>2,390</u>           | <u>7,439</u>        |
| Cash and cash equivalents as of end of year   | \$ <u><u>5,503</u></u> | <u><u>2,390</u></u> |
| Supplemental disclosure:  |                        |                     |
| Cash paid for interest  | \$ 4,455               | 4,165               |

See accompanying notes to financial statements.

## BENTLEY COLLEGE

### Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

#### (1) Description of the College

Bentley College (the College) is a business university that enrolls approximately 3,900 full-time undergraduate, 500 adult part-time undergraduate, and 1,300 graduate students. The College is located in Waltham, Massachusetts, ten miles west of Boston.

Academic programs at the College combine business and information technology to prepare students for a workplace that is increasingly global, information rich, and technology driven. Ethics and social responsibility have long been woven throughout the curriculum. The College offers undergraduate degrees in all major business fields and in the arts and sciences and graduate programs that include ten specialized Master of Science degrees. The College is accredited by the New England Association of Schools and Colleges (NEASC) and its graduate and undergraduate business programs are accredited by the Association to Advance Collegiate Schools of Business (AACSB International). AACSB International also accredits the College's accounting programs separately.

#### (2) Summary of Significant Accounting Policies

##### (a) *Basis of Financial Statement Presentation*

The accompanying financial statements are presented on the accrual basis of accounting and have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

*Unrestricted net assets* represent those assets that the College may use at its discretion.

*Temporarily restricted net assets* result from contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations. Net appreciation (depreciation) of permanently restricted long-term investments is recognized within the temporarily restricted net asset category until such monies are available for expenditure under the College's spending policy and a qualifying expenditure is incurred.

*Permanently restricted net assets* result from contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the College.

##### (b) *Cash and Cash Equivalents*

Cash equivalents represent money market funds and short-term instruments with a maturity at the date of purchase of three months or less and are carried at cost, which approximates market value.

##### (c) *Tuition and Related Revenues*

Tuition, fees, residence hall, and dining revenue are recorded at the established rates, net of financial aid and scholarships provided directly by the College for students.

## BENTLEY COLLEGE

### Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

**(d) *Pledges Receivable***

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on these pledges are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

**(e) *Investments***

The primary investment objective is to earn an average annual real return above the spending rate to support operations. Accordingly, the Investment Committee of the board of trustees has approved a diversified asset allocation program for its long-term investments that is actively managed by various external managers. Equity investments include assets across all sectors and styles, including U.S. large, mid and small-cap funds; developed and nondeveloped countries; and hedge funds. Fixed income securities include treasuries, corporates, asset-backed and mortgage obligations, while alternative assets include REITs, energy and venture capital investments. The Investment Committee, in combination with the College's investment advisors and administration, performs continuous monitoring of actual results and operating styles.

Investments are stated at fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments, principally limited partnerships and similar interests, for which quoted market prices are not available. The estimated fair value of limited partnerships and similar interests is based on valuations provided by the external investment managers. Because the limited partnership 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. Approximately 30% of total investments are invested in equity shares of hedge funds, limited partnerships and similar interests. The net increase (decrease) in realized and unrealized appreciation (depreciation) in the market value of investments has been included in the statements of activities in the appropriate net asset classification. .

The College may have exposure from derivative financial instruments through its investment managers' investment strategy and mutual fund investments. Derivatives, such as forward foreign currency contracts and futures, are used to hedge against foreign currency and price risk. Management has estimated that the risk associated with these derivatives is not material to the College as of June 30, 2004.

The College has relied upon the Massachusetts Attorney General's interpretation of relevant state law as generally permitting the spending of gains on permanently restricted net assets over a stipulated period of time. State law allows the board of trustees to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering the College's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the College's spending policy, which is deemed to be within the guidelines specified under state law, a percentage of

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### Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

permanently restricted long-term investments is appropriated annually as determined by the College's board of trustees.

**(f) *Property, Plant and Equipment***

Land, buildings, plant renovations and repairs, and equipment are stated at cost at the date of acquisition or renovation, or at fair market value at date of donation in the case of gifts. Minor renovations and repairs are charged to operations and maintenance as incurred. Depreciation of plant and equipment is computed on a straight-line basis over the expected lives of the respective assets. Interest expense on debt used to finance building construction has been added to the cost of the asset, net of any income earned on temporarily invested debt proceeds during construction.

**(g) *Bond Discount and Issuance Costs***

Unamortized bond discounts and issuance costs are being amortized on a straight-line basis through the final maturity date of the respective bond issue.

**(h) *Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**(i) *Income Taxes***

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

**(j) *Liquidity Information***

In order to provide information about liquidity, assets have been sequenced according to their convertibility to cash and liabilities according to their estimated maturity.

**(k) *Operations***

The statements of activities report the changes in net assets from operating and nonoperating activities. Nonoperating activity reflects contributions for long-term investments and capital projects and the appreciation (depreciation) on long-term investments in excess of the amount appropriated under the board of trustees' approved spending formula. In addition, nonoperating activities include changes in the present value of life income funds and other investment income. All other activity is classified as operating revenue.

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. When a qualifying expenditure occurs or a time restriction expires,

## BENTLEY COLLEGE

### Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

temporarily restricted assets are recognized in unrestricted net assets as net assets released from restrictions in the statements of activities. However, if a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as an unrestricted contribution.

Dividends, interest, and realized and unrealized gains (losses) on long-term investments are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift require these to be added to the principal;
- Increase (decrease) in temporarily restricted net assets if the terms of the gift or the College's interpretation of relevant state law imposes restrictions on the use of the income and gains;
- Increase (decrease) in unrestricted net assets in all other cases.

**(l) Allocations**

The College adheres to the AICPA's *Not-for-Profit Organizations Audit and Accounting Guide* in reporting fundraising costs and expenses by their functional classification. Accordingly, depreciation, interest, and operations and maintenance expenses have been allocated to functional classifications based on building square footage. Total fundraising costs for the years ended June 30, 2004 and 2003 were \$3,368 and \$3,122, respectively, and are included in institutional support expense on the statements of activities.

**(m) Split Interest Agreements**

Charitable gift annuity agreements reflect transfers of assets by donors to the College in exchange for a promise to receive a fixed amount for a specified period of time. At the time of the agreement, discount rates and actuarial assumptions are determined by management and used to calculate the present value of the future payments (annuity liability). The difference between the assets transferred from the donor and the related annuity liability is recognized as a contribution.

**(n) Disclosure About Fair Value of Financial Instruments**

In accordance with the requirements of Statement of Financial Accounting Standards No. 107, *Disclosures About the Fair Value of Financial Instruments*, the estimated fair values of the College's financial instruments as of June 30, 2004 have been determined by using, where practicable, appropriate valuation methodologies.

**(o) Reclassifications**

Certain 2003 balances have been reclassified to conform with 2004 reporting practices.

**(3) Allowances for Uncollectible Accounts and Student Loans**

Accounts receivable are net of an allowance for uncollectible accounts of \$200 and \$329 as of June 30, 2004 and 2003, respectively.

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Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

Student loans are net of an allowance for uncollectible loans of \$446 and \$462 as of June 30, 2004 and 2003, respectively.

**(4) Pledges Receivable**

Pledges receivable as of June 30 included the following:

|   | <u>2004</u>      | <u>2003</u>    |
|---|------------------|----------------|
| Amounts due in:                                       |                  |                |
| Less than one year                                    | \$ 12,030        | 3,052          |
| One to five years                                     | 3,368            | 14,825         |
| Greater than five years                               | 7,957            | 8,136          |
| Less discount and allowance for uncollectible pledges | <u>(4,487)</u>   | <u>(5,253)</u> |
| Pledges receivable, net                               | \$ <u>18,868</u> | <u>20,760</u>  |

Pledges receivable have been discounted at rates ranging from 2.50% to 6.25%.

**(5) Investments**

The College's investments as of June 30 are summarized as follows:

|  | <u>Fair value</u> |                |
|--|-------------------|----------------|
|  | <u>2004</u>       | <u>2003</u>    |
| Pooled:  |                   |                |
| Equities and similar investments                   | \$ 116,728        | 89,175         |
| Fixed income securities and short-term investments | 28,738            | 26,324         |
| Alternative investments                            | 19,724            | 16,674         |
|  | <u>165,190</u>    | <u>132,173</u> |
| Nonpooled:   |                   |                |
| Trusts:  |                   |                |
| Equities   | 1,877             | 1,514          |
| Fixed income                                       | 2,835             | 2,582          |
| Total investments                                  | \$ <u>169,902</u> | <u>136,269</u> |

**BENTLEY COLLEGE**

Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

The following summarizes the investment return for the years ended June 30:

|                                     | <u>2004</u>      | <u>2003</u>  |
|-------------------------------------|------------------|--------------|
| Investment return:                  |                  |              |
| Interest and dividends, net of fees | \$ 2,511         | 2,123        |
| Net realized and unrealized gains   | 22,056           | 1,081        |
| Other short-term investment income  | 385              | 370          |
| Investment return                   | <u>\$ 24,952</u> | <u>3,574</u> |

Total investment management and advisory fees were \$1,436 and \$1,206 for the years ended June 30, 2004 and 2003, respectively. The College has a \$450 outstanding investment purchase commitment for a partnership investment as of June 30, 2004.

**(6) Property, Plant and Equipment**

Property, plant and equipment as of June 30 is as follows:

|                                     | <u>2004</u>       | <u>2003</u>     |
|-------------------------------------|-------------------|-----------------|
| Land                                | \$ 31,973         | 31,416          |
| Buildings and improvements          | 201,113           | 192,483         |
| Furniture and equipment             | 30,379            | 24,946          |
| Library books                       | 8,664             | 8,194           |
| Land and buildings held for sale    | —                 | 2,726           |
| Construction in progress            | 14,507            | 1,115           |
|                                     | 286,636           | 260,880         |
| Less accumulated depreciation       | <u>(74,251)</u>   | <u>(61,637)</u> |
| Property, plant, and equipment, net | <u>\$ 212,385</u> | <u>199,243</u>  |

Depreciation expense was \$12,714 and \$11,036 for the years ended June 30, 2004 and 2003, respectively. Included in construction in progress is net capitalized interest expense of \$104 as of June 30, 2004. The College has approximately \$4,000 in commitments under construction contracts as of June 30, 2004.

In 2002, the College received a parcel of land from the U.S. Department of Education. The land will be owned by the College free and clear as long as it is utilized for educational purposes through 2031.

Two properties that were contributed to the College in 2003 were sold in July 2003, for a net amount of \$2,726.

In 2003, the College wrote off \$35,026 of fully depreciated furniture and equipment that was no longer in service.

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Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

The College has entered into a number of operating leases. Total lease expense for the years ended June 30, 2004 and 2003 amounted to \$2,503 and \$3,435, respectively. The College has lease obligations for the year ending June 30, 2005 of \$156.

**(7) Bonds and Loan Payable**

Outstanding debt as of June 30 is as follows:

|   | <u>2004</u>       | <u>2003</u>       |
|---|-------------------|-------------------|
| 3% Academic Buildings Bonds of 1966 maturing serially to 2007, currently callable, Baker Library, Lindsay Hall, Morison Building, and Jennison Building pledged as collateral           | \$ —              | 1,023             |
| Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds, Bentley College Issues:  |                   |                   |
| Series B and C, variable rate (1.75% and 1.0% as of June 30, 2004 and 2003), due January 1, 2010  | 4,329             | 4,897             |
| Series J, 4.50% to 5.38%, due serially to July 1, 2028  | 49,910            | 51,560            |
| Series K, variable rate (1.06% and 1.0% as of June 30, 2004 and 2003, respectively), due July 1, 2030   | 45,000            | 45,000            |
| Massachusetts Development Finance Agency (MDFA):  |                   |                   |
| Tax-Exempt Commercial Paper Revenue Notes, MassDevelopment CP Program Issue, variable rate (0.97% and 1.05% as of June 30, 2004 and 2003, respectively), due serially to March 15, 2011 | 3,000             | 3,000             |
| Revenue Bonds, Bentley College Issue, Series 2003, Select Auction Variable Rate Securities (1.15% as of June 30, 2004), due on July 1, 2033   | 30,100            | —                 |
|   | <u>132,339</u>    | <u>105,480</u>    |
| Less unamortized bond discount  | <u>(1,155)</u>    | <u>(1,204)</u>    |
| Bonds and loan payable, net   | \$ <u>131,184</u> | \$ <u>104,276</u> |

The aggregate maturities for all bonds and loan payable for the years ending June 30 are as follows:

|            |                   |
|------------|-------------------|
| 2005       | \$ 1,962          |
| 2006       | 1,871             |
| 2007       | 1,974             |
| 2008       | 1,940             |
| 2009       | 1,929             |
| Thereafter | <u>122,663</u>    |
|            | \$ <u>132,339</u> |

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### Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

The College's bonds payable approximate fair value based on estimates using current interest rates available for similar debt with equivalent maturities.

In February 2004, the College renewed its unsecured line of credit with Fleet National Bank for a maximum amount of \$15,000. The line of credit matures in January 2005, and has never been utilized.

#### **(8) Interest Rate Swap**

The College entered into an interest rate swap agreement with a financial institution counterparty in December 2002 on a portion of MHEFA Series K variable rate bonds. The purpose of the agreement was to swap the variable rate on \$25,000 of the MHEFA Series K bonds for a fixed rate of 3.69%, for the remaining life of the bonds (27-1/2 years). The College entered into this agreement to manage the cash flows attributable to interest payments on the MHEFA Series K bonds, and does not use such instruments for speculative purposes. The College also entered into a second interest rate swap with a different financial institution counterparty in September 2003. The purpose of this agreement was to swap \$15,000 of the variable rate of the MHEFA Series K bonds for a fixed rate of 3.63% through July 3, 2028. The College executed these agreements. The swap's fair value, and changes therein, are reported in the statement of activities. The value of the swap instrument represents the estimated benefit or cost to the College to cancel the agreement as of the reporting date, and is based on option pricing models that consider risks and other market factors. The asset, representing an increase in value of the agreement, has been recorded as an unrestricted net asset on the statement of financial position for the year ended June 30, 2004 in the amount of \$118.

#### **(9) Benefit Plans**

##### **(a) *Defined Contribution Plan***

Eligible faculty and staff of the College are participants in a defined contribution 403(b) retirement plan offering investment choices through the Teachers Insurance and Annuity Association, the College Retirement Equities Fund and Fidelity Investments. The College contributes, for the benefit of the participants, a minimum of 8% of eligible earnings to this plan; 10% beginning as of January 1, 2004. Total pension expense for the years ended June 30, 2004 and 2003 amounted to \$4,296 and \$3,766, respectively.

##### **(b) *Postretirement Benefits***

The College provides certain health care benefits for retired employees covered under the Bentley College Retiree Medical Benefits Plan (the Plan). Benefits are paid through an insurance company as claims are settled. The Plan is a noncontributory, defined benefit plan.

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Notes to Financial Statements

June 30, 2004 and 2003

(Dollars in thousands)

The following table sets forth the funded status of the Plan, as well as the amounts recognized in the statements of financial position as of June 30:

|  | <u>2004</u>     | <u>2003</u>  |
|--|-----------------|--------------|
| Change in benefit obligation:  |                 |              |
| Projected benefit obligation as of beginning of year                     | \$ 5,075        | 3,691        |
| Loss   | —               | 4,518        |
| Service cost   | 191             | 121          |
| Interest cost  | 312             | 331          |
| Benefits paid  | (247)           | (213)        |
| Plan amendment   | —               | (4,164)      |
| Assumption change  | 40              | 791          |
|  | <u>5,371</u>    | <u>5,075</u> |
| Funded status:   |                 |              |
| Unrecognized net actuarial (loss) gain                                   | (4,007)         | (4,550)      |
| Unrecognized assurance service cost                                      | 2,974           | 3,569        |
|  | <u>2,974</u>    | <u>3,569</u> |
| Net benefit liability recognized in the statements of financial position | \$ <u>4,338</u> | <u>4,094</u> |

During 2003, the College amended the Plan covering retiree medical benefits.

Components of net periodic benefit cost are as follows for the years ended June 30:

|  | <u>2004</u>   | <u>2003</u> |
|--|---------------|-------------|
| Service cost-benefits earned during the period | \$ 191        | 121         |
| Interest cost on projected benefit obligation  | 312           | 331         |
| Recognized prior service cost                  | (594)         | (595)       |
| Recognized net gain                            | 583           | 559         |
|  | <u>583</u>    | <u>559</u>  |
| Net periodic benefit cost                      | \$ <u>492</u> | <u>416</u>  |

The following assumptions were used in the measurement of net periodic benefit cost and the projected benefit obligation:

|                                | <u>2004</u> | <u>2003</u> |
|--------------------------------|-------------|-------------|
| Weighted average discount rate | 6.25%       | 7.5%        |

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., medical cost trend rate) for the Plan was assumed to be 6% in 2002. In 2003, the medical cost trend rate for current retirees was revised to better reflect Plan experience and was assumed to be 12% for 2003. The rate will decrease 1% per year through 2009. Increasing the assumed health care

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(Dollars in thousands)

cost trend rate by 1% point in each year would increase the accumulated benefit obligation by \$93. Decreasing the assumed health care cost trend rate by 1% point in each year would decrease the accumulated benefit obligation by \$125.

**(10) Student Loans**

Student loans include funds advanced to the College by the U.S. government under the Federal Perkins Loan Program (the Program). Student loans under the Program are subject to significant restrictions. Such funds are reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are generally refundable to the U.S. government. Accordingly, it is not practicable to determine the fair value of such amounts.

**(11) Temporarily Restricted Net Assets**

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

|  | <u>2004</u>      | <u>2003</u>   |
|--|------------------|---------------|
| Long-term investment gains restricted as to purpose: |                  |               |
| Instruction  | \$ 6,824         | 5,726         |
| Student aid  | 19,874           | 14,003        |
| Other  | 4,699            | 3,723         |
|  | <u>31,397</u>    | <u>23,452</u> |
| Other purpose restrictions                           | 3,042            | 2,010         |
| Time restrictions:                                   |                  |               |
| Annuity trust agreements                             | 383              | 155           |
| Pledges receivable                                   | 17,660           | 19,371        |
|  | <u>18,043</u>    | <u>19,526</u> |
| Total  | <u>\$ 52,482</u> | <u>44,988</u> |

Unspent long-term investment gains on permanently restricted net assets are classified as temporarily restricted until the College appropriates and spends such sums in accordance with the terms of the underlying contributions, at which time they will be reclassified to unrestricted revenues.

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**(12) Permanently Restricted Net Assets**

Permanently restricted net assets consist of the following as of June 30:

|   | <u>2004</u>      | <u>2003</u>   |
|---|------------------|---------------|
| Assets for which earnings are restricted as to purpose: |                  |               |
| Instruction   | \$ 4,480         | 4,413         |
| Student aid   | 22,372           | 20,181        |
| Other   | 2,372            | 2,319         |
| Time restrictions:                                      |                  |               |
| Annuity trust agreements                                | 1,466            | 1,352         |
| Pledges receivable                                      | 1,208            | 1,389         |
| Total   | <u>\$ 31,898</u> | <u>29,654</u> |

**(13) Net Assets Released from Restrictions**

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors or by the passage of time were as follows for the years ended June 30:

|                       | <u>2004</u>     | <u>2003</u>  |
|-----------------------|-----------------|--------------|
| Purpose restrictions: |                 |              |
| Scholarship           | \$ 1,050        | 1,412        |
| Instruction/research  | 592             | 886          |
| General operations    | 2,048           | 964          |
| Capital projects      | 900             | 900          |
| Total                 | <u>\$ 4,590</u> | <u>4,162</u> |

**(14) Clarification of Donor Intent**

Certain net assets were reclassified based on clarification of donor-directed use of their contributions.

**(15) Contingencies**

The College is engaged in legal cases that have arisen in the normal course of its operations. The College believes that the outcome of these cases will not have a material adverse effect on the financial position of the College.