



**ENDICOTT COLLEGE**

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

The Board of Trustees  
Endicott College:

We have audited the accompanying financial statements of Endicott College, which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of unrestricted revenues and expenses, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Endicott College as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

October 17, 2017

**ENDICOTT COLLEGE**

Statements of Financial Position

June 30, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 13,299,356	10,689,182
Accounts and loans receivables, net (note 3)	2,861,976	3,483,334
Contributions receivable, net (note 4)	1,871,269	1,441,203
Other assets	641,557	1,224,158
Long-term investments, at fair value (note 5)	79,116,285	67,265,303
Land, buildings, improvements, and equipment, net (notes 7 and 9)	<u>226,479,698</u>	<u>220,370,424</u>
Total assets	<u>\$ 324,270,141</u>	<u>304,473,604</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses (note 8)	\$ 6,396,264	9,052,463
Student deposits and deferred revenue	9,500,311	10,031,193
Bonds, notes, and leases payable, net (note 9)	74,329,208	77,727,254
Fair value of interest rate swaps (note 9)	7,610,853	10,887,052
Refundable advances – U.S. government grants	<u>611,804</u>	<u>557,075</u>
Total liabilities	<u>98,448,440</u>	<u>108,255,037</u>
Net assets:		
Unrestricted	215,112,007	187,236,050
Temporarily restricted (note 10)	2,469,350	2,116,557
Permanently restricted (note 11)	<u>8,240,344</u>	<u>6,865,960</u>
Total net assets	<u>225,821,701</u>	<u>196,218,567</u>
Total liabilities and net assets	<u>\$ 324,270,141</u>	<u>304,473,604</u>

See accompanying notes to financial statements.

**ENDICOTT COLLEGE**

Statements of Unrestricted Revenues and Expenses

Years ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Operating:		
Revenues:		
Tuition and fees	\$ 98,707,668	93,807,424
Residence and dining fees	34,748,033	33,004,260
Less scholarships and student aid	(30,430,715)	(28,682,865)
Net student fees	103,024,986	98,128,819
Contributions	1,584,237	1,856,212
Federal and state grants	702,746	642,733
Investment income (note 5)	1,099,410	1,200,191
Other income	2,626,376	2,420,572
Conference and education services	7,825,144	8,361,053
Net assets released from restrictions (note 12)	695,371	794,801
Total revenues	117,558,270	113,404,381
Expenses:		
Instruction	32,000,697	30,127,564
Academic support	12,398,763	11,716,763
Student services	14,191,736	12,970,623
Institutional support	13,558,933	13,118,116
Conference and education services	7,756,021	7,931,771
Other auxiliary services	19,248,518	18,122,906
Total expenses	99,154,668	93,987,743
Increase in unrestricted net assets from operations	18,403,602	19,416,638
Nonoperating:		
Realized and unrealized gains (losses) on unrestricted investments (note 5)	5,823,253	(2,340,597)
Net gain (loss) on interest rate swap agreement (note 9)	3,276,199	(2,577,255)
Net assets released from restrictions (note 12)	372,903	1,412,711
Total nonoperating	9,472,355	(3,505,141)
Increase in unrestricted net assets	\$ 27,875,957	15,911,497

See accompanying notes to financial statements.

**ENDICOTT COLLEGE**

Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in unrestricted net assets:		
Operating revenue	\$ 117,558,270	113,404,381
Expenses	(99,154,668)	(93,987,743)
Nonoperating activities	<u>9,472,355</u>	<u>(3,505,141)</u>
Increase in unrestricted net assets	<u>27,875,957</u>	<u>15,911,497</u>
Changes in temporarily restricted net assets:		
Contributions	763,859	655,296
Reinvested income (note 5)	657,208	(115,554)
Net assets released from restrictions (note 12)	<u>(1,068,274)</u>	<u>(2,207,512)</u>
Increase (decrease) in temporarily restricted net assets	<u>352,793</u>	<u>(1,667,770)</u>
Changes in permanently restricted net assets:		
Contributions	<u>1,374,384</u>	<u>256,266</u>
Increase in permanently restricted net assets	<u>1,374,384</u>	<u>256,266</u>
Increase in net assets	29,603,134	14,499,993
Net assets, beginning of year	<u>196,218,567</u>	<u>181,718,574</u>
Net assets, end of year	<u>\$ 225,821,701</u>	<u>196,218,567</u>

See accompanying notes to financial statements.

**ENDICOTT COLLEGE**

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Increase in net assets	\$ 29,603,134	14,499,993
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,552,843	7,117,127
Change in fair value of interest rate swaps	(3,276,199)	2,577,255
Net realized and unrealized (gains) losses	(6,300,955)	2,769,881
Contributions for long-term investments	(1,747,287)	(1,668,977)
Changes in accounts receivable	603,208	166,769
Changes in contributions receivable	(430,066)	902,941
Changes in other assets	498,839	(172,800)
Changes in accounts payable and accrued expenses	(295,926)	56,007
Changes in student deposits and deferred revenues	(530,881)	(201,431)
Net cash provided by operating activities	25,676,710	26,046,765
Cash flows from investing activities:		
Purchases of equipment and building improvements	(16,022,388)	(23,542,717)
Purchase of investments	(16,790,105)	(12,469,085)
Proceeds from sales and maturities of investments	11,240,076	7,094,048
Change in loans receivable	18,150	(2,804)
Net cash used in investing activities	(21,554,267)	(28,920,558)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	32,625,000	—
Payments on long-term debt	(34,587,440)	(1,754,901)
Proceeds from term loan and capital lease	—	8,354,280
Payments on notes payable	(1,351,846)	(532,363)
Contributions for long-term investment	1,747,287	1,668,977
Change in government grants refundable	54,730	(2,922)
Net cash (used) provided by financing activities	(1,512,269)	7,733,071
Net increase in cash and cash equivalents	2,610,174	4,859,278
Cash and cash equivalents, beginning of year	10,689,182	5,829,904
Cash and cash equivalents, end of year	\$ 13,299,356	10,689,182
Supplemental data:		
Cash paid for interest	\$ 2,955,149	2,897,936

See accompanying notes to financial statements.

## ENDICOTT COLLEGE

### Notes to Financial Statements

June 30, 2017 and 2016

#### (1) Background and History

Endicott College (Endicott or the College) is located on a 235-acre oceanfront campus in Beverly, Massachusetts, 30 miles north of the City of Boston. Founded in 1939, Endicott is a private coeducational, not-for-profit, nonsectarian institution of higher education. In 1944, the College was approved by the Commonwealth of Massachusetts to grant Associate in Arts and Associate in Science degrees and in 1952 received accreditation from the New England Association of Schools and Colleges. Founded as a two-year institution "to educate women for greater independence and an enhanced position in the workplace," Endicott became a two-plus-two year institution in 1988 and became a four-year coeducational institution in 1994. Today, all undergraduate College day program students are Bachelor degree applicants. Master's level programs were offered beginning in 1996. Doctoral programs were offered beginning in 2012.

Endicott College seeks to provide an education built upon a combination of theory and practice, which is tested through internships and work experience. The College supports two major educational components: the Undergraduate College and the School of Graduate and Professional Studies.

The Undergraduate College offers Bachelor of Fine Arts, Bachelor of Arts, and Bachelor of Science degrees. Undergraduate enrollment as of September 2016 was approximately 2,746 students. Approximately 91% of the full-time traditional undergraduate students live on campus.

The Van Loan School of Graduate and Professional Studies grants Associate in Arts, Associate in Science, Bachelor of Arts, Bachelor of Science, Master of Arts, Master of Education, Master of Fine Arts, Master of Science, Master of Business Administration, Doctor of Education and Doctor of Philosophy degrees. Enrollment in the Van Loan School, including programs in Beverly, Gloucester, and Boston, Massachusetts, Madrid, Spain, Devonshire, Bermuda, Leysin, Switzerland, Prague, Czech Republic, and Bangkok, Thailand was 2,304 students in September 2016. In addition to degree programs, professional development programs and consulting are offered through the Van Loan School.

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

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

The accompanying financial statements, which are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, 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.

##### (b) Classification of Net Assets

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met by actions of the College and/or the passage of time.
- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

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### Notes to Financial Statements

June 30, 2017 and 2016

#### **(c) Statement of Unrestricted Revenues and Expenses**

The statement of unrestricted revenues and expenses reports the change in unrestricted net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the College's undergraduate and graduate programs as well as internally and externally managed conference and events services. Endowment activities relating to the College's unrestricted investments and the valuation changes on the interest rate swap agreements are reported as nonoperating revenue.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions and endowment income subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. 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 the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

The College reports contributions of land, buildings, or equipment as unrestricted nonoperating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted nonoperating support, provided the long-lived assets are placed in service in the same reporting period; otherwise, the contributions are reported as temporarily restricted support until the assets are acquired and placed in service.

Dividends, interest, and net gains (losses) on investments 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 (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the current use of the income or net gains; and
- as increases (decreases) in unrestricted net assets in all other cases.

Expenses associated with the operation and maintenance of College plant assets, including interest and depreciation expense, are allocated on the basis of square footage utilized by the functional categories.



## ENDICOTT COLLEGE

### Notes to Financial Statements

June 30, 2017 and 2016

Expenses associated with fundraising activities of the College were \$1,187,605 and \$1,372,560 in 2017 and 2016, respectively, which are included principally in institutional support in the statements of unrestricted revenues and expenses.

#### **(d) Cash and Cash Equivalents**

For the purpose of the statements of cash flows, the College considers cash equivalents as investments with maturities at date of purchase of three months or less.

#### **(e) Fair Value Measurements**

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments are measured and reported at fair value using a hierarchy that prioritizes inputs used to measure fair value into one of the following three categories:

*Level 1* – quoted prices (unadjusted) in active markets for identical assets or liabilities as of the measurement date;

*Level 2* – inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

*Level 3* – unobservable inputs for assets or liabilities are used in situations in which little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The College utilizes valuation techniques that maximizes the use of observable inputs and minimizes the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability.

#### **(f) Land, Buildings, Improvements, and Equipment**

Land, buildings, improvements, and equipment are stated at cost, except for donated assets, which are recorded at fair market value at the date of gift. Depreciation is computed using the straight-line method over the related assets' estimated useful economic lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

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### Notes to Financial Statements

June 30, 2017 and 2016

#### **(g) Bond Issue Costs**

Bond issue costs are amortized using the effective interest rate method over the life of the associated bond issue. Effective in fiscal year 2017, the College retroactively adopted the provisions of Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03) which requires debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Accordingly, bonds, notes, and leases payable originally stated at \$78,234,212 in the June 30, 2016 statement of financial position have been reclassified to \$77,727,254 to reflect \$506,958 of unamortized issuance costs previously included in prepaid expenses and other assets. The adoption of ASU 2015-03 did not affect the College's net assets, statement of unrestricted revenues and expenses, or statements of cash flows for the fiscal years ended June 30, 2017 and 2016.

#### **(h) Student Deposits and Deferred Revenue**

Student deposits, along with advance payments for tuition, room, and board related to the next semester, have been deferred and will be reported as unrestricted as earned.

#### **(i) Use of Estimates**

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, 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. Such estimates include the valuation of contributions, loans, and other receivables, and the useful lives of buildings, improvements, and equipment. Actual results could differ from those estimates.

#### **(j) Tax Status**

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. The College believes it has taken no significant uncertain tax positions.

The College generally does not provide for income taxes since it is a tax-exempt organization under Section 501(c) 3 of the Internal Revenue Code. ASC 740, *Income Taxes*, permits an entity to recognize the benefit and requires accrual of an uncertain tax position only when the position is "more likely than not" to be sustained in the event of examination by tax authorities. In evaluating whether a tax position has met the recognition threshold, the College must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. ASC 740 also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. Tax positions deemed to meet the "more likely than not" threshold are recorded as a tax expense in the current year. The College has analyzed all open tax years, defined by the statutes of limitations, for all major jurisdictions. Open tax years are those that are open for exam by taxing authorities. Major jurisdictions for the College include Federal and the state of Massachusetts. As of June 30, 2017, open Federal and Massachusetts tax years for the College include the tax years ended June 30, 2012, through June 30, 2016. The College has no examinations in progress. The College believes it has no significant uncertain tax positions.

**ENDICOTT COLLEGE**  
Notes to Financial Statements  
June 30, 2017 and 2016

**(3) Accounts Receivable and Loans Receivables**

Accounts receivable and loans receivable, net, consisted of the following at June 30:

	<b>2017</b>	<b>2016</b>
Student accounts receivable, net	\$ 1,195,231	1,106,778
Other accounts receivable	926,532	1,618,193
Loans receivable, net	740,213	758,363
	\$ 2,861,976	3,483,334

Student accounts receivable are net of an allowance for uncollectible accounts of \$313,119 and \$295,127 at June 30, 2017 and 2016, respectively.

Loans receivable are net of an allowance for uncollectible loans of \$57,124 at June 30, 2017 and 2016, respectfully.

**(4) Contributions Receivable**

Contributions receivable consisted of the following at June 30:

	<b>2017</b>	<b>2016</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 133,381	239,000
One year to five years	1,788,500	1,334,725
Five years and thereafter	56,700	70,600
	1,978,581	1,644,325
Less present value discount (0.72% to 1.89%) and allowance for uncollectible pledges	(107,312)	(203,122)
	\$ 1,871,269	1,441,203

**(5) Investments**

**(a) Strategy**

The overall investment objective of the College is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The College diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Investment Committee, which oversees the College's investment program in accordance with established guidelines.

## ENDICOTT COLLEGE

### Notes to Financial Statements

June 30, 2017 and 2016

#### **(b) Reporting Basis**

Investments are reported at estimated fair value. If an investment is held directly by the College and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. The College also holds shares or units in traditional institutional funds as well as in alternative investment funds involving hedged strategies, private equity and real asset strategies which are valued using current estimates at fair value based upon net asset value (NAV) unless they are determined to have a readily determinable fair value. These valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the College's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets. NAV is used as a practical expedient to estimate the fair value of the College's interest in these funds, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV. The College has assessed the NAV provided by the external managers and believes the amounts reported represent a reasonable estimate of fair value.

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Notes to Financial Statements  
June 30, 2017 and 2016

The following tables summarize the College's investments by major category in the fair value hierarchy as of June 30, 2017 and 2016, as well as related strategy, liquidity and funding commitments:

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Total</u>	<u>Liquidity</u>	<u>Days' notice</u>
Investments at fair value:				
Cash and cash equivalents	\$ 3,505,986	3,505,986		
Money market accounts	2,901,279	2,901,279		
Registered investment companies:				
Fixed income	4,918,190	4,918,190		
U.S. equities	13,353,398	13,353,398		
Non-U.S. equities	13,739,693	13,739,693		
Commodities	1,445,013	1,445,013		
Multiple strategies	6,872,469	6,872,469		
Real assets	1,708,935	1,708,935		
Comingled trusts:				
Multiple strategies	<u>17,489,532</u>	<u>17,489,532</u>		
Investments at fair value	65,934,495	65,934,495		
Investments measured at NAV:				
Comingled trusts:				
U.S. and global fixed income	\$ —	1,581,785	Varies (1)	Varies (2)
Hedged strategies:				
Off-shore funds	—	9,023,063	Varies (3)	Varies (4)
Private equity:				
Venture funds	—	277,412	Illiquid (5)	Not applicable
Real estate	—	<u>2,299,530</u>	Illiquid (5)	Not applicable
Total investments	<u>\$ 65,934,495</u>	<u>79,116,285</u>		

- (1) Redemption or liquidation period is daily or monthly.
- (2) Between 5–30 days' notice is required.
- (3) Subject to 1–3 year rolling lockups, redemptions permitted on December 31, of each year.
- (4) Between 90–100 days' notice is required.
- (5) These funds are expected to liquidate within 5–10 years. Unfunded future commitments aggregate \$4,600,000.

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Notes to Financial Statements  
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<u>June 30, 2016</u>	<u>Level 1</u>	<u>Total</u>	<u>Liquidity</u>	<u>Days' notice</u>
Investments at fair value:				
Cash and cash equivalents	\$ 7,939	7,939		
Money market accounts	4,030,437	4,030,437		
Registered investment companies:				
Fixed income	4,194,197	4,194,197		
U.S. equities	12,354,419	12,354,419		
Non-U.S. equities	9,056,551	9,056,551		
Commodities	914,764	914,764		
Multiple strategies	5,790,118	5,790,118		
Real assets	1,705,372	1,705,372		
Comingled trusts:				
Multiple strategies	<u>17,317,846</u>	<u>17,317,846</u>		
Investments at fair value	55,371,643	55,371,643		
Investments measured at NAV:				
Comingled trusts:				
U.S. and global fixed income	\$ —	1,398,434	Varies (1)	Varies (2)
Hedged strategies:				
Off-shore funds	—	7,718,687	Varies (3)	Varies (4)
Private equity:				
Venture funds	—	333,525	Illiquid (5)	Not applicable
Real estate	—	<u>2,443,014</u>	Illiquid (5)	Not applicable
Total investments	<u>\$ 55,371,643</u>	<u>67,265,303</u>		

- (1) Redemption or liquidation period is daily or monthly.  
(2) Between 5–30 days' notice is required.  
(3) Subject to 1–3 year rolling lockups, redemptions permitted on December 31, of each year.  
(4) Between 90–100 days' notice is required.  
(5) These funds are expected to liquidate within 5–10 years. Unfunded future commitments aggregate \$790,300

The following summarizes investment return components for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investment return:		
Interest and dividends, net of fees	\$ 1,278,916	1,513,921
Net realized and unrealized gains (losses)	<u>6,300,955</u>	<u>(2,769,881)</u>
Investment return	<u>\$ 7,579,871</u>	<u>(1,255,960)</u>

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Notes to Financial Statements  
June 30, 2017 and 2016

Investment returns are included in the statements of unrestricted revenues and expenses and changes in net assets as follows for the years ended June 30:

	<b>2017</b>	<b>2016</b>
Investment return:		
Operating:		
Investment earnings utilized in operations	\$ 1,099,410	1,200,191
Nonoperating activities:		
Investment return, net of amounts used in operations	5,823,253	(2,340,597)
Changes in temporarily restricted net assets:		
Investment return	657,208	(115,554)
Investment return	\$ 7,579,871	(1,255,960)

Total investment management and advisory fees were \$138,938 and \$102,166 for the years ended June 30, 2017 and 2016, respectively.

**(c) Commitments**

Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the College may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The College cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.

Certain hedge funds of funds contain "rolling" lock-up provisions. Under such provisions, tranches of the investment are available for redemption at calendar year-end once every two or three years, if the College makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement.

**(6) Endowment**

The College's endowment consists of 106 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Relevant Law**

The Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) permits the Board of Trustees to exercise its discretion in determining the appropriate level of expenditure from a

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Notes to Financial Statements

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donor-restricted endowment fund in accordance with a set of guidelines about what constitutes prudent spending. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. UPMIFA permits the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide the College in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the College and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the College; and, 7) the investment policy of the College.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. The accounting standards define permanently restricted funds as those that must be held in perpetuity even though the historic-dollar-value may be appropriated on a temporary basis. In accordance with appropriate accounting standards, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the 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 appropriated for spending by the Board of Trustees.

Endowment funds consist of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	966,384	7,249,802	8,216,186
Board-designated endowment funds	<u>70,786,152</u>	<u>—</u>	<u>—</u>	<u>70,786,152</u>
Total endowment funds	<u>\$ 70,786,152</u>	<u>966,384</u>	<u>7,249,802</u>	<u>79,002,338</u>



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Endowment funds consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (21,330)	565,736	6,348,840	6,893,246
Board-designated endowment funds	<u>60,268,658</u>	<u>—</u>	<u>—</u>	<u>60,268,658</u>
Total endowment funds	<u>\$ 60,247,328</u>	<u>565,736</u>	<u>6,348,840</u>	<u>67,161,904</u>

Changes in endowment funds for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, July 1, 2016	\$ 60,247,328	565,736	6,348,840	67,161,904
Investment return:				
Investment income	1,052,028	179,506	—	1,231,534
Net appreciation	<u>5,823,253</u>	<u>477,702</u>	<u>—</u>	<u>6,300,955</u>
Total	<u>6,875,281</u>	<u>657,208</u>	<u>—</u>	<u>7,532,489</u>
Contributions	3,663,543	—	900,962	4,564,505
Appropriation of endowment assets for expenditure	<u>—</u>	<u>(256,560)</u>	<u>—</u>	<u>(256,560)</u>
Endowment funds, June 30, 2017	<u>\$ 70,786,152</u>	<u>966,384</u>	<u>7,249,802</u>	<u>79,002,338</u>

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Changes in endowment funds for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, July 1, 2015	\$ 57,899,029	928,781	5,727,805	64,555,615
Investment return:				
Investment income	1,159,078	313,731	—	1,472,809
Net depreciation	<u>(2,340,597)</u>	<u>(429,285)</u>	<u>—</u>	<u>(2,769,882)</u>
Total	<u>(1,181,519)</u>	<u>(115,554)</u>	<u>—</u>	<u>(1,297,073)</u>
Contributions	3,529,818	—	621,035	4,150,853
Appropriation of endowment assets for expenditure	<u>—</u>	<u>(247,491)</u>	<u>—</u>	<u>(247,491)</u>
Endowment funds, June 30, 2016	<u>\$ 60,247,328</u>	<u>565,736</u>	<u>6,348,840</u>	<u>67,161,904</u>

**(b) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature that are reported as reductions in unrestricted net assets totaled \$0 and \$21,330, respectively, as of June 30, 2017 and 2016. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

**(c) Return Objectives and Risk Parameters**

The College has adopted investment and spending policies for endowment assets that are intended to ensure a total return (yield plus capital appreciation) necessary to at least preserve, but expected to enhance (in real dollar terms) endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period of time as well as board-designated funds. At June 30, 2017, Board-designated funds are unrestricted and account for approximately 90% of the total endowment.

To satisfy its long-term rate of return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on investments in equities, fixed income and alternative investments in a 55-20-25% ratio to achieve its long-term return objectives within prudent risk constraints.

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**(d) Spending Policy and How the Investment Objectives Relate to Spending Policy**

Under the College's current endowment spending policy, which is conservative when measured against the guidelines specified under state law, income and dividends are reinvested and appropriations (draws) are made only for donor-stipulated purposes; that amount is typically less than 1% of the endowment. Generally, the maximum draw is no greater than 5% of the average fair value of each individual donor-restricted endowment investment. A total of \$256,560 and \$247,491 was appropriated in 2017 and 2016, respectively. The amount appropriated for spending in 2017 and 2016 was less than the maximum allowed due to prior years' economic conditions. The College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate greater than planned payouts. Further, the College has committed to an annual transfer from operations to help build the endowment.

**(7) Land, Buildings, Improvements, and Equipment**

The College's investment in plant at June 30 is as follows:

	<u>Estimated lives</u>		<u>2017</u>	<u>2016</u>
Land	—	\$	10,884,132	10,884,132
Construction in process	—		1,760,775	10,304,359
Buildings and land improvements	50 years		260,322,821	239,322,688
Furniture, equipment, and books	3–10 years		21,164,208	20,094,659
Motor vehicles and similar assets	3 years		1,230,410	1,094,391
			<u>295,362,346</u>	<u>281,700,229</u>
Less accumulated depreciation			<u>(68,882,648)</u>	<u>(61,329,805)</u>
		\$	<u><u>226,479,698</u></u>	<u><u>220,370,424</u></u>

Depreciation expense charged to operations was \$7,552,843 and \$7,117,127 in 2017 and 2016, respectively.

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**(8) Accounts Payable and Accrued Expenses**

The College's accounts payable and accrued expenses consist of the following at June 30:

	<b>2017</b>	<b>2016</b>
Accounts payable and accrued expenses related to building projects and equipment	\$ 672,634	3,032,907
Accounts payable	1,565,917	1,245,017
Accrued interest expense	228,235	247,092
Accrued salaries payable	1,931,766	2,875,898
Accrued vacation	1,466,798	1,461,991
Other accrued expenses	530,914	189,558
	\$ 6,396,264	9,052,463

**(9) Bonds, Notes, and Leases Payable**

**(a) Bonds Payable**

On April 1, 2010, the College entered into an agreement with MHEFA for a \$10,000,000 Revenue Bond, Series F. The bond was purchased by TD Bank for the purpose of refinancing a \$3,000,000 term loan used to purchase property adjacent to the College to house students, and to provide funding for a new residence hall which was completed in August 2011. The Bond has a ten-year term and carries a fixed interest rate of 4.40%. The balance at June 30, 2017 and 2016 was \$8,873,746 and \$9,078,394, respectively.

On March 31, 2015, the College entered into an agreement with MDFA for an \$18,000,000 Revenue Bond, Series 2015. The bond was purchased by People's United Bank for the purpose of constructing a new residence hall on campus which will be completed in September 2015. The Bond has a fifteen-year term and carries a fixed interest rate of 2.50%. The balance at June 30, 2017 and 2016 was \$17,502,162 and \$17,929,953, respectively.

On March 15, 2017 the College entered into an agreement with MDFA for a \$32,625,000 Revenue Bond, Series 2017. The bond was purchased by Bank of America for the purpose of refinancing both the Series 2012 MHEFA Revenue Bond as well as a taxable term loan with Bank of America from August 2012 and for the payment of closing costs. The bond has a seven-year term and carries a variable interest rate of 68% of the one month LIBOR rate plus 0.70%. The balance at June 30, 2017 was \$32,625,000. In addition to this refinancing, the College partially terminated a portion of its interest rate swaps associated with the variable rate debt in order to correctly align the amortization of the interest rate swaps with the underlying debt.

In conjunction with the College's issuances of variable-rate debt, the College entered into interest rate swap agreements with a financial institution counterparty for the purpose of swapping the variable rates on the underlying debt for fixed rates. The interest rates on the Series B and Series C swap agreements were amended to 4.425% and 4.40% with termination dates of October 1, 2018 and October 1, 2023. The interest rates on the Series D and Series E swap agreements were amended to 4.165% and 3.82% with termination dates of May 1, 2024 and October 1, 2037 respectively. The value

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of the swap instruments, which is recorded as a liability of \$7,610,853 at June 30, 2017 and \$10,887,052 at June 30, 2016, represents the estimated cost to the College to cancel the agreement at each reporting date and is based on pricing models that consider interest rates and other market factors. Interest rate volatility, remaining outstanding principal, and time to maturity will affect the swaps' fair value at subsequent reporting dates. If the College repays the debt on schedule, the value of each swap will reach zero at its final maturity. Because the swap fair value is based predominantly on observable inputs that are corroborated by market data, it is categorized as Level 2 in the fair value hierarchy.

#### **(b) Notes Payable**

##### *(i) Line of Credit*

The College maintains its line of credit with Bank of America for \$8,500,000 available through April 27, 2018. The interest rate charged as of June 30, 2017 is the LIBOR Rate plus 1.20% points. No amounts were outstanding as of June 30, 2017 and 2016.

##### *(ii) Term Loan*

On July 1, 2013 the College entered into a loan agreement in the amount of \$10,000,000 with Bank of America for the purposes of repaying the College's existing term loan and funding various capital projects at the College at an interest rate of 2.60% per annum. The balance at June 30, 2017 and June 30, 2016 was \$8,843,860 and \$9,150,719 respectively.

On January 27, 2016 the College entered into a loan agreement in the amount of \$6,000,000 with Bank of America for the purposes of for the purpose funding the constructing a new residence hall on campus which will be completed in September 2016. The loan has a 7-year term and carries a fixed interest rate of 2.38% per annum. The balance at June 30, 2017 was \$5,409,000.

##### *(iii) Capital Lease Line of Credit*

On July 1, 2015 the College entered into a Lease Line of Credit with TD Bank in the amount of \$854,679 for new IT networking equipment. The amount outstanding on the lease line of credit as of June 30, 2017 was \$523,990.

On January 1, 2016 the College entered into a Lease Line of Credit with TD Bank in the amount of \$1,499,601 for new campus security systems and upgrades to existing equipment. The amount outstanding on the lease line of credit as of June 30, 2017 was \$1,142,170.

On an annual basis the College is required to meet various financial covenants. The college has met these requirements as of June 30, 2017 and 2016.

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The scheduled principal payments for all debt are as follows:

	<u>Bonds</u>	<u>Leases</u>	<u>Term loan</u>	<u>Total</u>
Year ending June 30:				
2018	\$ 977,730	464,992	1,225,049	2,667,771
2019	1,943,721	476,262	1,257,453	3,677,436
2020	10,211,483	487,554	1,294,502	11,993,539
2021	1,833,358	237,352	1,329,928	3,400,638
2022	1,890,497	—	1,361,025	3,251,522
2023 and thereafter	42,144,119	—	7,784,903	49,929,022
	<u>\$ 59,000,908</u>	<u>1,666,160</u>	<u>14,252,860</u>	<u>74,919,928</u>

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**(10) Temporarily Restricted Net Assets**

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

	<b>2017</b>	<b>2016</b>
Gifts restricted as to purpose:		
Athletics	\$ 195,961	—
Life Science and Business Center	150,000	—
Scholarships	87,344	177,053
Lab equipment	20,355	115,255
Keys to Degrees program and replication project	17,771	37,661
Other purposes	166,657	312,618
Total gifts restricted as to purpose	638,088	642,587
Long-term investment gains and unspent long-term investment income:		
Handicapped programs	298,609	295,611
Faculty support and scholarship	58,598	43,721
Scholarships	609,177	226,404
Total long-term investment gains	966,384	565,736
Time restrictions:		
Life Science and Business Center	115,606	184,672
Arena and recreational facility	380,595	557,668
General purposes	368,677	165,894
Total time restrictions	864,878	908,234
	\$ 2,469,350	2,116,557

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

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**(11) Permanently Restricted Net Assets**

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

	<b>2017</b>	<b>2016</b>
Permanently restricted funds for which the income is restricted:		
Handicapped programs	\$ 940,000	940,000
Faculty support and scholarship	7,300,344	5,925,960
	\$ 8,240,344	6,865,960

**(12) 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 were as follows:

	<b>2017</b>	<b>2016</b>
Scholarship	\$ 292,762	247,491
Art Center	32,667	500
Keys to Degrees program	37,661	221,280
Arena and recreational facility	179,535	131,000
Life Science and Business Center	93,668	1,281,211
Other purposes	431,981	326,030
	\$ 1,068,274	2,207,512

**(13) Leases**

Future minimum lease payments under noncancelable operating equipment leases as of June 30, 2017 are as follows:

2018		\$ 341,351
2019		275,958
2020		126,940

Rent expense was \$425,020 and \$429,264 in 2017 and 2016, respectively.

**(14) Pension Plan**

All full-time personnel are covered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) professional retirement plan, a defined contribution plan. The College incurred pension expense under this plan of \$2,569,250 and \$2,529,666 for the years ended June 30, 2017 and 2016, respectively.



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#### **(15) Related Parties**

Members of the College's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the College. The College's conflict of interest policy requires, among other things, that no member of the Board of Trustees or its committees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. For members of the Board of Trustees and senior management, the College requires an annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the College. When such relationships exist, measures are taken to address the actual or perceived conflict to protect the best interests of the College and ensure compliance with relevant conflict of interest laws or policy. The College has determined that for the fiscal year ended June 30, 2017, no significant relationships existed.

#### **(16) Disclosure about Legal Claims**

The College is subject to certain legal proceedings and claims that arose in the ordinary course of conducting its activities. Management has determined, after consultation with legal counsel, that the College has defensible positions and that any ultimate liabilities not covered by insurance will not materially affect the College's financial position.

#### **(17) Subsequent Events**

The College has evaluated subsequent events for potential recognition or disclosure through October 17, 2017 the date on which the financial statements were issued, and determined that no events occurred that warrant disclosure.