ENDICOTT COLLEGE

Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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 18, 2018

ENDICOTT COLLEGE

Statements of Financial Position

June 30, 2018 and 2017

Assets		**2018**	**2017**
Cash and cash equivalents	$	16,392,659	13,299,356
Accounts and loans receivables, net (note 3)		3,154,416	2,861,976
Contributions receivable, net (note 4)		2,344,263	1,871,269
Deposits with bond trustee (note 9)		19,112,601	—
Other assets		780,299	641,557
Long-term investments, at fair value (note 5)		88,837,545	79,116,285
Land, buildings, improvements, and equipment, net (notes 7 and 9)		242,212,463	226,479,698
Total assets	$	372,834,246	324,270,141
Liabilities and Net Assets			
Accounts payable and accrued expenses (note 8)	$	8,458,198	6,396,264
Student deposits and deferred revenue		9,608,499	9,500,311
Bonds, notes, and leases payable, net (note 9)		97,347,954	74,329,208
Fair value of interest rate swaps (note 9)		5,620,699	7,610,853
Refundable advances – U.S. government grants		603,275	611,804
Total liabilities		121,638,625	98,448,440
Net assets:			
Unrestricted		238,212,210	215,112,007
Temporarily restricted (note 10)		3,867,927	2,469,350
Permanently restricted (note 11)		9,115,484	8,240,344
Total net assets		251,195,621	225,821,701
Total liabilities and net assets	$	372,834,246	324,270,141

See accompanying notes to financial statements.

ENDICOTT COLLEGE

Statements of Unrestricted Revenues and Expenses

Years ended June 30, 2018 and 2017

		2018	2017
Operating:			
Revenues:			
Tuition and fees	$	105,794,445	98,707,668
Residence and dining fees		37,393,251	34,748,033
Less scholarships and student aid		(34,251,959)	(30,430,715)
Net student fees		108,935,737	103,024,986
Contributions		1,590,410	1,584,237
Federal and state grants		774,973	702,746
Investment income (note 5)		1,785,771	1,099,410
Other income		2,465,342	2,626,376
Conference and education services		7,777,349	7,825,144
Net assets released from restrictions (note 9)		559,998	695,371
Total revenues		123,889,580	117,558,270
Expenses:			
Instruction		33,211,204	32,000,697
Academic support		12,900,015	12,398,763
Student services		15,442,225	14,191,736
Institutional support		15,460,913	13,558,933
Conference and education services		8,215,371	7,756,021
Other auxiliary services		20,141,594	19,248,518
Total expenses		105,371,322	99,154,668
Increase in unrestricted net assets from operations		18,518,258	18,403,602
Nonoperating:			
Realized and unrealized gains on unrestricted investments (note 5)		2,996,359	5,823,253
Net gain on interest rate swap agreement (note 9)		1,990,154	3,276,199
Loss on extinguishment of debt (note 9)		(550,361)	—
Net assets released from restrictions (note 12)		145,793	372,903
Total nonoperating		4,581,945	9,472,355
Increase in unrestricted net assets	$	23,100,203	27,875,957

See accompanying notes to financial statements.

ENDICOTT COLLEGE

Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

		2018	2017
Changes in unrestricted net assets:			
Operating revenue	$	123,889,580	117,558,270
Expenses		(105,371,322)	(99,154,668)
Nonoperating activities		4,581,945	9,472,355
Increase in unrestricted net assets		23,100,203	27,875,957
Changes in temporarily restricted net assets:			
Contributions		1,550,325	763,859
Reinvested income (note 5)		554,043	657,208
Net assets released from restrictions (note 12)		(705,791)	(1,068,274)
Increase in temporarily restricted net assets		1,398,577	352,793
Changes in permanently restricted net assets:			
Contributions		875,140	1,374,384
Increase in permanently restricted net assets		875,140	1,374,384
Increase in net assets		25,373,920	29,603,134
Net assets, beginning of year		225,821,701	196,218,567
Net assets, end of year	$	251,195,621	225,821,701

See accompanying notes to financial statements.

ENDICOTT COLLEGE

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Increase in net assets	$	25,373,920	29,603,134
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		8,006,386	7,552,843
Change in fair value of interest rate swaps		(1,990,154)	(3,276,199)
Net realized and unrealized gains		(3,251,243)	(6,300,955)
Contributions for long-term investments		(1,020,933)	(1,747,287)
Loss on extinguishment of debt		550,361	—
Changes in accounts and loans receivables, net		(224,746)	603,208
Changes in contributions receivable, net		(472,994)	(430,066)
Changes in other assets		(1,022,721)	498,839
Changes in accounts payable and accrued expenses		(181,142)	(295,926)
Changes in student deposits and deferred revenues		108,188	(530,881)
Net cash provided by operating activities		25,874,922	25,676,710
Cash flows from investing activities:			
Purchases of equipment and building improvements		(21,496,074)	(16,022,388)
Change in deposits with bond trustee		(19,112,601)	—
Purchase of investments		(36,172,342)	(16,790,105)
Proceeds from sales and maturities of investments		29,702,324	11,240,076
Change in loans receivable		(67,694)	18,150
Net cash used in investing activities		(47,146,387)	(21,554,267)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		34,793,000	32,625,000
Payments on long-term debt		(9,768,875)	(34,587,440)
Proceeds from term loan and capital lease		29,735	—
Payments on notes payable		(1,701,495)	(1,351,846)
Contributions for long-term investment		1,020,933	1,747,287
Change in government grants refundable		(8,530)	54,730
Net cash provided by (used in) financing activities		24,364,768	(1,512,269)
Net increase in cash and cash equivalents		3,093,303	2,610,174
Cash and cash equivalents, beginning of year		13,299,356	10,689,182
Cash and cash equivalents, end of year	$	16,392,659	13,299,356
Supplemental data:			
Cash paid for interest	$	3,133,414	2,955,149

See accompanying notes to financial statements.

(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 fall 2017 was approximately 2,870 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, Boston and other sites in Massachusetts, Madrid, Spain, Devonshire, Bermuda, Leysin, Switzerland, Prague, Czech Republic, and Bangkok, Thailand was 2,185 students in fall 2017. 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.

(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.

(Continued)

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.

Expenses associated with fundraising activities of the College were $1,219,607 and $1,187,605 in 2018 and 2017, 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.

(g) Bond Issue Costs

Bond issue costs are amortized using the effective interest rate method over the life of the associated bond issue.

(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.

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(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, 2018, open Federal and Massachusetts tax years for the College include the tax years ended June 30, 2012, through June 30, 2017. The College has no examinations in progress. The College believes it has no significant uncertain tax positions.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The College has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

(3) Accounts Receivable and Loans Receivables, net

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

		2018	2017
Student accounts receivable, net	$	1,489,214	1,195,231
Other accounts receivable		857,295	926,532
Loans receivable, net		807,907	740,213
	$	3,154,416	2,861,976

Student accounts receivable are net of an allowance for uncollectible accounts of approximately $407,000 and $313,000 at June 30, 2018 and 2017, respectively.

Loans receivable are net of an allowance for uncollectible loans of $57,000 at June 30, 2018 and 2017, respectfully.

(4) Contributions Receivable

Contributions receivable consisted of the following at June 30:

		2018	2017
Unconditional promises expected to be collected in:			
Less than one year	$	282,131	133,381
One year to five years		2,177,734	1,788,500
Five years and thereafter		53,950	56,700
		2,513,815	1,978,581
Less present value discount (0.72% to 2.73%) and allowance for uncollectible pledges		(169,552)	(107,312)
	$	2,344,263	1,871,269

(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.

(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.

The following tables summarize the College's investments by major category in the fair value hierarchy as of June 30, 2018 and 2017, as well as related strategy, liquidity and funding commitments:

June 30, 2018	Level 1	Total	Liquidity	Days' notice
Investments at fair value:				
Cash and cash equivalents	$ 2,718,063	2,718,063		
Money market accounts	1,177,710	1,177,710		
Registered investment companies:				
Fixed income	9,765,097	9,765,097		
U.S. equities	15,851,647	15,851,647		
Non-U.S. equities	21,053,515	21,053,515		
Real assets	1,817,832	1,817,832		
Comingled trusts:				
U.S. and global fixed income	115,692	115,692		
U.S. equities	3,873,745	3,873,745		
Real assets	3,037,521	3,037,521		
Multiple strategies	17,782,577	17,782,577		
Investments at fair value	77,193,399	77,193,399		
Investments measured at NAV:				
Hedged strategies:				
Off-shore funds	—	8,081,484	Varies (1)	Varies (2)
Private equity:				
Venture funds	—	816,073	Illiquid (3)	Not applicable
Real estate	—	2,746,589	Illiquid (3)	Not applicable
Total investments	$ 77,193,399	88,837,545		

(1) Redemption or liquidation period is quarterly, semi-annually, or annually.
(2) Between 30–90 days' notice is required.
(3) These funds are expected to liquidate within 5–10 years. Unfunded future commitments aggregate $3,420,000.

June 30, 2017		Level 1	Total	Liquidity	Days' notice
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		17,489,532	17,489,532		
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		—	2,299,530	Illiquid (5)	Not applicable
Total investments	$	65,934,495	79,116,285		

(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.

The following summarizes investment return components for the years ended June 30, 2018 and 2017:

		2018	2017
Investment return:			
Interest and dividends, net of fees	$	2,084,930	1,278,916
Net realized and unrealized gains		3,251,243	6,300,955
Investment return	$	5,336,173	7,579,871

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:

		2018	2017
Investment return:			
Operating:			
Investment earnings utilized in operations	$	1,785,771	1,099,410
Nonoperating activities:			
Investment return, net of amounts used in operations		2,996,359	5,823,253
Changes in temporarily restricted net assets:			
Investment return		554,043	657,208
Investment return	$	5,336,173	7,579,871

Total investment management and advisory fees were $197,408 and $138,938 for the years ended June 30, 2018 and 2017, 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 120 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 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, 2018:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(2,345)	1,249,168	8,130,158	9,376,981
Board-designated endowment funds		79,344,872	—	—	79,344,872
Total endowment funds	$	79,342,527	1,249,168	8,130,158	88,721,853

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

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

Changes in endowment funds for the year ended June 30, 2018 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, July 1, 2017	$	70,786,152	966,384	7,249,802	79,002,338
Investment return:					
Investment income		2,679,736	299,158	—	2,978,894
Net appreciation		1,952,812	254,885	—	2,207,697
Total		4,632,548	554,043	—	5,186,591
Contributions		3,923,827	—	880,356	4,804,183
Appropriation of endowment assets for expenditure		—	(271,259)	—	(271,259)
Endowment funds, June 30, 2018	$	79,342,527	1,249,168	8,130,158	88,721,853

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
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		5,823,253	477,702	—	6,300,955
Total		6,875,281	657,208	—	7,532,489
Contributions		3,663,543	—	900,962	4,564,505
Appropriation of endowment assets for expenditure		—	(256,560)	—	(256,560)
Endowment funds, June 30, 2017	$	70,786,152	966,384	7,249,802	79,002,338

(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 $2,345 and $0, respectively, as of June 30, 2018 and 2017. 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, 2018, 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.

(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 $271,259 and $256,560 was appropriated in 2018 and 2017, respectively. The amount appropriated for spending in 2018 and 2017 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:

	Estimated lives	2018	2017
Land	—	$ 10,884,132	10,884,132
Construction in process	—	17,977,711	1,760,775
Buildings and land improvements	50 years	265,641,991	260,322,821
Furniture, equipment, and books	3–10 years	23,108,817	21,164,208
Motor vehicles and similar assets	3 years	1,488,846	1,230,410
		319,101,497	295,362,346
Less accumulated depreciation		(76,889,034)	(68,882,648)
		$ 242,212,463	226,479,698

Depreciation expense charged to operations amounted to $8,006,386 and $7,552,843 in 2018 and 2017, respectively.

(Continued)

(8) Accounts Payable and Accrued Expenses

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

		2018	2017
Accounts payable and accrued expenses related to building projects and equipment	$	2,915,711	672,634
Accounts payable		1,477,574	1,565,917
Accrued interest expense		280,243	228,235
Accrued salaries payable		2,504,890	1,931,766
Accrued vacation		1,186,874	1,466,798
Other accrued expenses		92,906	530,914
	$	8,458,198	6,396,264

(9) Bonds, Notes, and Leases Payable

(a) Bonds Payable

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 was 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, 2018 and 2017 was $17,063,414 and $17,502,162, 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, 2018 and 2017 was $32,300,000 and $32,625,000, respectively. 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 are 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 are 4.165% and 3.82% with termination dates of May 1, 2024 and October 1, 2037 respectively. The value of the swap instruments, which is recorded as a liability of $5,620,699 at June 30, 2018 and $7,610,853 at June 30, 2017, 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.

On December 6, 2017, the College entered into an agreement with MDFA for a $25,900,000 Revenue Bond, Series 2017B. The bond was purchased by People’s United Bank for the purpose of constructing an academic center on campus which is scheduled to be completed by June 1, 2019 and a parking garage which was completed in August 2018. The Bond has a thirty-year term and carries a fixed interest rate of 2.87%. The balance at June 30, 2018 was $25,900,000.

On December 6, 2017, the College entered into an agreement with MDFA for an $8,893,000 Revenue Refunding Bond, Series 2017C. The bond was purchased by People’s United Bank for the purpose of refinancing a $10,000,000 Series F Bond. The Bond has a twenty-four year term and carries a fixed interest rate of 2.84%. The balance at June 30, 2018 was $8,761,618. As a result of the refinancing, the College recorded a loss on extinguishment of debt of $550,361.

(b) Deposits with Bond Trustee

Deposits with bond trustee include amounts held by People's United Bank under the requirements of the Series 2017B revenue bond agreement. This fund, comprised of cash, is carried at fair market value. The balance at June 30, 2018 was $19,112,601.

(c) Notes Payable

(i) Line of Credit

The College maintains its line of credit with Bank of America for $8,500,000 available through April 29, 2019. The interest rate charged as of June 30, 2018 is the LIBOR Rate plus 1.20% points. No amounts were outstanding as of June 30, 2018 and 2017.

(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, 2018 and 2017 was $8,528,814 and $8,843,860, 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 was completed in September 2016. The loan has a 7-year term and caries a fixed interest rate of 2.38% per annum. The balance at June 30, 2018 and June 30, 2017 was $4,499,000 and $5,409,000, respectively.

(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 was $300,841 and $523,990 as of June 30, 2018 and 2017, respectively.

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 was $898,466 and $1,142,170 as of June 30, 2018 and 2017, respectively.

On July 14, 2017 the College entered into a Lease Line of Credit with Allstate Capital in the amount of $29,735 for new athletic equipment. The amount outstanding on the lease line of credit as of June 30, 2018 was $20,139.

On an annual basis the College is required to meet various financial covenants. The college has met these requirements as of June 30, 2018 and 2017.

The scheduled principal payments for all debt are as follows:

		Bonds	Leases	Term loan	Total
Year ending June 30:					
2019	$	1,995,482	485,994	1,257,453	3,738,929
2020		2,058,261	497,957	1,294,502	3,850,720
2021		2,497,086	235,495	1,329,928	4,062,509
2022		2,839,968	—	1,361,025	4,200,993
2023		2,925,324	—	961,364	3,886,688
2024 and thereafter		71,708,911	—	6,823,542	78,532,453
	$	84,025,032	1,219,446	13,027,814	98,272,292

Scheduled principal payments for all debt include unamortized issuance costs of $924,338 and $590,720 as of June 30, 2018 and 2017, respectively.

(10) Temporarily Restricted Net Assets

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

		2018	2017
Gifts restricted as to purpose:			
Life Science and Business Center	$	300,000	150,000
Athletics		240,751	195,961
Scholarships		171,374	87,344
Center for Humanities		160,000	—
Engineering		125,000	—
Other purposes		278,546	204,783
Total gifts restricted as to purpose		1,275,671	638,088

		2018	2017
Long-term investment gains and unspent long-term investment income:			
Handicapped programs	$	288,288	298,609
Faculty support and scholarship		76,644	58,598
Scholarships		884,236	609,177
Total long-term investment gains		1,249,168	966,384
Time restrictions:			
Capital purposes		592,670	496,201
Engineering		365,123	—
Center for Humanities		330,602	—
General purposes		54,693	368,677
Total time restrictions		1,343,088	864,878
	$	3,867,927	2,469,350

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.

(11) Permanently Restricted Net Assets

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

		2018	2017
Permanently restricted funds for which the income is restricted:			
Handicapped programs	$	940,000	940,000
Faculty support and scholarship		8,175,484	7,300,344
	$	9,115,484	8,240,344

(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:

		2018	2017
Scholarship	$	291,259	292,762
Capital purposes		132,500	273,203
Keys to Degrees program		17,771	37,661
Art Center		—	32,667
Other purposes		264,261	431,981
	$	705,791	1,068,274

(13) Leases

Future minimum lease payments under noncancelable operating equipment leases as of June 30, 2018 are as follows:

2019	$	325,745
2020		126,940
2021		5,947

Rent expense was $545,522 and $425,020 in 2018 and 2017, 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 $2,763,011 and $2,569,250 for the years ended June 30, 2018 and 2017, respectively.

(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, 2018, no significant relationships existed.

(Continued)

(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 18, 2018 the date on which the financial statements were issued, and determined that no events occurred that warrant disclosure.