ENDICOTT COLLEGE

Financial Statements

June 30, 2016 and 2015

(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, 2016 and 2015, 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, 2016 and 2015, 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 19, 2016

ENDICOTT COLLEGE

Statements of Financial Position

June 30, 2016 and 2015

Assets		**2016**	**2015**
Cash and cash equivalents	$	10,689,182	5,829,904
Accounts and loans receivables, net (note 3)		3,483,334	3,647,299
Contributions receivable, net (note 4)		1,441,203	2,344,144
Other assets		1,731,116	1,558,316
Long-term investments, at fair value (note 5)		67,265,303	64,660,145
Land, buildings, improvements, and equipment, net (notes 7 and 9)		220,370,424	204,536,978
Total assets	$	304,980,562	282,576,786
Liabilities and Net Assets			
Accounts payable and accrued expenses (note 8)	$	9,052,463	9,588,598
Student deposits and deferred revenue		10,031,193	10,232,624
Bonds, notes, and leases payable (note 9)		78,234,212	72,167,196
Fair value of interest rate swaps (note 9)		10,887,052	8,309,797
Refundable advances – U.S. government grants		557,075	559,997
Total liabilities		108,761,995	100,858,212
Net assets:			
Unrestricted		187,236,050	171,324,553
Temporarily restricted (note 10)		2,116,557	3,784,327
Permanently restricted (note 11)		6,865,960	6,609,694
Total net assets		196,218,567	181,718,574
Total liabilities and net assets	$	304,980,562	282,576,786

See accompanying notes to financial statements.

ENDICOTT COLLEGE

Statements of Unrestricted Revenues and Expenses

Years ended June 30, 2016 and 2015

	2016	2015
Operating:		
Revenues:		
Tuition and fees	$ 93,807,424	83,859,852
Residence and dining fees	33,004,260	28,556,811
Less scholarships and student aid	(28,682,865)	(25,373,001)
Net student fees	98,128,819	87,043,662
Contributions	1,856,212	1,688,377
Federal and state grants	642,733	1,533,665
Investment income (note 5)	1,200,191	1,053,789
Other income	2,420,572	1,902,439
Conference and education services	8,361,053	7,480,725
Net assets released from restrictions (note 12)	794,801	588,720
Total revenues	113,404,381	101,291,377
Expenses:		
Instruction	30,127,564	27,180,607
Academic support	11,716,763	10,873,497
Student services	12,970,623	11,876,279
Institutional support	13,118,116	12,698,757
Conference and education services	7,931,771	7,587,034
Other auxiliary services	18,122,906	15,786,241
Total expenses	93,987,743	86,002,415
Increase in unrestricted net assets from operations	19,416,638	15,288,962
Nonoperating:		
Realized and unrealized losses on unrestricted investments (note 5)	(2,340,597)	(956,097)
Net loss on interest rate swap agreement (note 9)	(2,577,255)	(529,063)
Net assets released from restrictions (note 12)	1,412,711	1,280,439
Total nonoperating	(3,505,141)	(204,721)
Increase in unrestricted net assets	$ 15,911,497	15,084,241

See accompanying notes to financial statements.

ENDICOTT COLLEGE

Statements of Changes in Net Assets

Years ended June 30, 2016 and 2015

		2016	2015
Changes in unrestricted net assets:			
Operating revenue	$	113,404,381	101,291,377
Expenses		(93,987,743)	(86,002,415)
Nonoperating activities		(3,505,141)	(204,721)
Increase in unrestricted net assets		15,911,497	15,084,241
Changes in temporarily restricted net assets:			
Contributions		655,296	980,909
Reinvested income (note 5)		(115,554)	10,010
Net assets released from restrictions (note 12)		(2,207,512)	(1,869,159)
Decrease in temporarily restricted net assets		(1,667,770)	(878,240)
Changes in permanently restricted net assets:			
Contributions		256,266	1,091,364
Increase in permanently restricted net assets		256,266	1,091,364
Increase in net assets		14,499,993	15,297,365
Net assets, beginning of year		181,718,574	166,421,209
Net assets, end of year	$	196,218,567	181,718,574

See accompanying notes to financial statements.

ENDICOTT COLLEGE

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase in net assets	$ 14,499,993	15,297,365
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,117,127	5,966,515
Change in fair value of interest rate swaps	2,577,255	529,063
Net realized and unrealized losses	2,769,881	1,259,954
Contributions for long-term investments	(1,668,977)	(2,371,803)
Changes in accounts receivable	166,769	(944,397)
Changes in contributions receivable	902,941	1,520,687
Changes in other assets	(172,800)	(507,640)
Changes in accounts payable and accrued expenses	56,007	622,167
Changes in student deposits and deferred revenues	(201,431)	(33,459)
Net cash provided by operating activities	26,046,765	21,338,452
Cash flows from investing activities:		
Purchases of equipment and building improvements	(23,542,717)	(34,713,545)
Purchase of investments	(12,469,085)	(25,442,598)
Proceeds from sales and maturities of investments	7,094,048	21,905,653
Change in loans receivable	(2,804)	38,500
Net cash used in investing activities	(28,920,558)	(38,211,990)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	18,000,000
Payments on long-term debt	(1,754,901)	(1,582,257)
Proceeds from term loan and capital lease	8,354,280	—
Payments on notes payable	(532,363)	(291,134)
Contributions for long-term investment	1,668,977	2,371,803
Change in government grants refundable	(2,922)	22
Net cash provided by financing activities	7,733,071	18,498,434
Net increase in cash and cash equivalents	4,859,278	1,624,896
Cash and cash equivalents, beginning of year	5,829,904	4,205,008
Cash and cash equivalents, end of year	$ 10,689,182	5,829,904
Supplemental data:		
Cash paid for interest	$ 2,897,936	2,515,393

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. Day program enrollment as of September 2015 was approximately 2,656 students, with another 107 students enrolled in Madrid, Spain and Devonshire, Bermuda. Approximately 92% of the full-time day 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 of Graduate and Professional Studies, including programs in Beverly, Gloucester, and Boston, Massachusetts, Madrid, Spain, Devonshire, Bermuda, Leysin, Switzerland, Prague, Czech Republic, and Bangkok, Thailand was 2,244 students as of September 2015. In addition to degree programs, professional development programs and consulting are offered through the Van Loan School of Graduate and Professional Studies.

(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) Statements of Activities

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

(Continued)

- 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.

Expenses associated with fundraising activities of the College were $1,372,560 and $1,453,912 in 2016 and 2015, 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.

The College determined the estimated fair values of its financial instruments as of June 30, 2016 by using, where practicable, appropriate valuation methodologies.

ASU 2015-10, *Technical Corrections and Improvements*, clarifies that investments in commingled funds with structures similar to registered mutual funds may have a readily determinable fair value (RDFV) if the NAV per unit or share is published and used as the basis for current transactions. Unlike investments measured using NAV as a practical expedient to estimate fair value, investments meeting these criteria are deemed to be accounted for at fair value and are categorized in the fair value hierarchy table, even though published NAVs generally remain the basis for measuring fair value. During 2016, based on these criteria, the College re-evaluated certain investments historically measured using NAV as a practical expedient and determined that $17,793,168, of such investments meet the RDFV criteria at June 30, 2015. Accordingly, these investments have been disclosed in Level 1 of the fair value hierarchy table at that date.

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(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.

(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, 2016, open Federal and Massachusetts tax years for the College include the tax years ended June 30, 2012, through June 30, 2015. The College has no examinations in progress. The College believes it has no significant uncertain tax positions.

(3) Accounts Receivable and Loans Receivables

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

		2016	2015
Student accounts receivable, net	$	1,106,778	1,000,372
Other accounts receivable		1,618,193	1,891,368
Loans receivable, net		758,363	755,559
	$	3,483,334	3,647,299

Student accounts receivable are net of an allowance for uncollectible accounts of $295,127 and $289,987 at June 30, 2016 and 2015, respectively.

Loans receivable are net of an allowance for uncollectible loans of $57,124 at June 30, 2016 and 2015, respectfully.

(4) Contributions Receivable

Contributions receivable consisted of the following at June 30:

		2016	2015
Unconditional promises expected to be collected in:			
Less than one year	$	239,000	73,500
One year to five years		1,334,725	2,305,822
Five years and thereafter		70,600	85,050
		1,644,325	2,464,372
Less present value discount (0.72% to 1.79%) and allowance for uncollectible pledges		(203,122)	(120,228)
	$	1,441,203	2,344,144

(5) Investments

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.

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). 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, 2016 and 2015, as well as related strategy, liquidity and funding commitments:

June 30, 2016		Level 1	Total	Liquidity	Days' notice
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		17,317,846	17,317,846		
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			2,443,014	Illiquid (5)	Not applicable
Total investments	$	55,371,643	67,265,303		

(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

June 30, 2015		Level 1	Total	Liquidity	Days' notice
Investments at fair value:					
Cash and cash equivalents	$	8,539	8,539		
Money market accounts		2,569,692	2,569,692		
Registered investment companies:					
Fixed income		3,992,231	3,992,231		
U.S. equities		13,186,398	13,186,398		
Non-U.S. equities		10,483,529	10,483,529		
Commodities		1,050,550	1,050,550		
Multiple strategies		1,905,317	1,905,317		
Real assets		1,580,691	1,580,691		
Comingled trusts:					
Multiple strategies		17,793,168	17,793,168		
Investments at fair value		52,570,115	52,570,115		
Investments measured at NAV:					
Comingled trusts:					
U.S. and global fixed income			1,381,333	Varies (1)	Varies (2)
Hedged strategies:					
Off-shore funds			8,381,328	Varies (3)	Varies (4)
Private equity:					
Venture funds			385,598	Illiquid (5)	Not applicable
Real estate			1,941,771	Illiquid (5)	Not applicable
Total investments	$	52,570,115	64,660,145		

(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 $308,122.

The following summarizes investment return components for the years ended June 30, 2016 and 2015:

		2016	2015
Investment return:			
Interest and dividends, net of fees	$	1,513,921	1,367,656
Net realized and unrealized losses		(2,769,881)	(1,259,954)
Investment return	$	(1,255,960)	107,702

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:

		2016	2015
Investment return:			
Operating:			
Investment earnings utilized in operations	$	1,200,191	1,053,789
Nonoperating activities:			
Investment return, net of amounts used in operations		(2,340,597)	(956,097)
Changes in temporarily restricted net assets:			
Investment return		(115,554)	10,010
Investment return	$	(1,255,960)	107,702

Total investment management and advisory fees were $102,166 and $76,586 for the years ended June 30, 2016 and 2015, respectively.

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 95 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, 2016:

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

Endowment funds consist of the following at June 30, 2015:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(8,593)	928,781	5,727,805	6,647,993
Board-designated endowment funds		57,907,622	—	—	57,907,622
Total endowment funds	$	57,899,029	928,781	5,727,805	64,555,615

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, July 1, 2015	$	57,899,029	928,781	5,727,805	64,555,615
Investment return:					
Investment income		1,159,077	313,731	—	1,472,808
Net depreciation		(2,340,596)	(429,285)	—	(2,769,881)
Total		(1,181,519)	(115,554)	—	(1,297,073)
Contributions		3,529,818	—	621,035	4,150,853
Appropriation of endowment assets for expenditure		—	(247,491)	—	(247,491)
Endowment funds, June 30, 2016	$	60,247,328	565,736	6,348,840	67,161,904

(Continued)

Changes in endowment funds for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, July 1, 2014	$ 56,669,606	1,163,960	4,454,888	62,288,454
Investment return:				
Investment income	1,031,677	313,867	—	1,345,544
Net depreciation	(956,097)	(303,857)	—	(1,259,954)
Total	75,580	10,010	—	85,590
Contributions	1,153,843	—	1,272,917	2,426,760
Appropriation of endowment assets for expenditure	—	(245,189)	—	(245,189)
Endowment funds, June 30, 2015	$ 57,899,029	928,781	5,727,805	64,555,615

(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 $21,330 and $8,593, respectively, as of June 30, 2016 and 2015. 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, 2016, 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 $247,491 and $245,189 was appropriated in 2016 and 2015, respectively. The amount appropriated for spending in 2016 and 2015 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		2016	2015
Land	—	$	10,884,132	10,884,132
Construction in process	—		10,304,359	29,772,030
Buildings and land improvements	50 years		239,322,688	200,684,693
Furniture, equipment, and books	3 – 10 years		20,094,659	16,585,970
Motor vehicles and similar assets	3 years		1,094,391	822,831
			281,700,229	258,749,656
Less accumulated depreciation			(61,329,805)	(54,212,678)
		$	220,370,424	204,536,978

Depreciation expense charged to operations was $7,117,127 and $5,966,515 in 2016 and 2015, respectively.

(8) Accounts Payable and Accrued Expenses

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

		2016	2015
Accounts payable and accrued expenses related to building projects and equipment	$	3,032,907	3,625,051
Accounts payable		1,245,017	1,924,858
Accrued interest expense		247,092	240,537
Accrued salaries payable		2,875,898	2,321,347
Accrued vacation		1,461,991	1,338,851
Other accrued expenses		189,558	137,954
	$	9,052,463	9,588,598

(Continued)

(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, 2016 and 2015 was $9,078,394 and $9,273,248, respectively.

On August 2, 2012, the College entered into an agreement with MHEFA for a $26,465,000 Revenue Bond, Series 2012. The bond was purchased by Bank of America for the purpose of refinancing the MHEFA Variable Rate Demand Revenue Bonds, Series D (2004). The Bond has a seven-year term. It is secured by a mortgage and security agreement as amended through December 14, 2010 and carries a variable interest rate of LIBOR plus 0.75%. The balance at June 30, 2016 and June 30, 2015 was $22,155,000 and $23,295,000, 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, 2016 and 2015 was $17,929,953 and $18,000,000, respectively.

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. In conjunction with the refinancing of the Series D and Series E bonds on August 2, 2012, the agreements relating to the former Series B, Series C, Series D, and Series E bond issues were revised. 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 of the swap instruments, which is recorded as a liability of $10,887,052 at June 30, 2016 and $8,309,797 at June 30, 2015, 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

Line of Credit

Subsequent to year-end, the College renewed its line of credit with Bank of America for $8,500,000 available through April 30, 2017. The interest rate charged as of June 30, 2016 is the LIBOR Rate plus 1.20% points. No amounts were outstanding as of June 30, 2016 and 2015.

Term Loan

On August 2, 2012, the College entered into an agreement with Bank of America for a taxable term loan in the amount of $12,850,000 for the purpose of refinancing the MHEFA Variable Rate Demand Revenue Bonds, Series E (2007) and for payment of closing costs for the August 2, 2012 transactions. The term of the loan is five years and carries a variable interest rate of LIBOR plus 0.55%. The balance at June 30, 2016 and June 30, 2015 was $11,800,000 and $12,150,000, respectively.

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, 2016 and June 30, 2015 was $9,150,719 and $9,448,948 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 caries a fixed interest rate of 2.38% per annum. The balance at June 30, 2016 was $6,000,000.

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, 2016 was $691,148.

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, 2016 was $1,428,998.

On an annual basis the College is required to meet various financial covenants. The college has met these requirements as of June 30, 2016 and 2015.

The scheduled principal payments for all debt are as follows:

	Bonds	Leases	Term loan	Total
Year ending June 30:				
2017	$ 1,814,438	453,997	1,297,859	3,566,294
2018	1,877,727	464,996	12,625,047	14,967,770
2019	1,943,721	476,262	1,257,453	3,677,436
2020	10,209,483	487,554	1,294,502	11,991,539
2021	17,638,358	237,337	1,329,928	19,205,623
2022 and thereafter	15,679,620	—	9,145,930	24,825,550
	$ 49,163,347	2,120,146	26,950,719	78,234,212

(10) Temporarily Restricted Net Assets

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

		2016	2015
Gifts restricted as to purpose:			
Arena and recreational facility	$	—	737,088
Keys to Degrees program and replication project		37,661	221,280
Lab equipment		115,255	—
Scholarships		177,053	161,976
Other purposes		312,618	288,796
Total gifts restricted as to purpose		642,587	1,409,140
Long-term investment gains and unspent long-term investment income:			
Handicapped programs		295,611	438,068
Faculty support and scholarship		43,721	40,772
Scholarships		226,404	449,941
Total long-term investment gains		565,736	928,781
Time restrictions:			
Art Center		—	—
Life Science and Business Center		184,672	729,966
Arena and recreational facility		557,668	626,634
General purposes		165,894	89,806
Total time restrictions		908,234	1,446,406
	$	2,116,557	3,784,327

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:

		2016	2015
Permanently restricted funds for which the income is restricted:			
Handicapped programs	$	940,000	940,000
Faculty support and scholarship		5,925,960	5,669,694
	$	6,865,960	6,609,694

(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:

		2016	2015
Scholarship	$	247,491	248,910
Art Center		500	2,828
Keys to Degrees program		221,280	107,552
Athletic Field		131,000	67,500
Life Science and Business Center		1,281,211	1,197,221
Other purposes		326,030	245,148
	$	2,207,512	1,869,159

(13) Leases

Future minimum lease payments under noncancelable operating equipment leases as of June 30, 2016 are as follows:

2017	$	210,496
2018		70,446
2019		5,052

Rent expense was $429,264 and $355,229 in 2016 and 2015, respectively.

(Continued)

(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 $2,529,666 and $2,298,171 for the years ended June 30, 2016 and 2015, 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, 2016, 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 19, 2016 the date on which the financial statements were issued, and determined that no events occurred that warrant disclosure.