

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

CLARK UNIVERSITY

May 31, 2016 and 2015

CLARK UNIVERSITY

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Clark University

We have audited the accompanying consolidated financial statements of Clark University (the “University”) and subsidiary, which comprise the consolidated statements of financial position as of May 31, 2016 and 2015, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clark University and subsidiary as of May 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and consolidating statements of activities - unrestricted are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Boston, Massachusetts

September 16, 2016

CLARK UNIVERSITY
Consolidated Statements of Financial Position
May 31, 2016 and 2015
(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 39,397	\$ 48,988
Funds held by trustees (Note 4)	4,478	850
Interest and dividends receivable	37	12
Grants and contracts receivable	1,085	767
Student accounts receivable, net of allowance for doubtful accounts of \$450 and \$455 in 2016 and 2015, respectively	375	310
Other accounts receivable	726	575
Loan receivable (Note 3)	6,651	-
Prepaid expenses and other assets	840	748
Contributions receivable - net (Note 5)	3,478	3,789
Financing issue costs, unamortized	830	713
Student loans receivable - net (Note 6)	5,879	5,448
Beneficial interests in outside trusts	1,302	1,358
Investments, at fair value (Note 7)	392,340	422,834
Land, buildings, equipment, and construction in progress- net of accumulated depreciation (Note 9)	<u>136,224</u>	<u>123,308</u>
Total assets	<u>\$ 593,642</u>	<u>\$ 609,700</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 18,389	\$ 13,009
Advance payments under grants	1,195	1,485
Other liabilities	3,341	3,387
Deposits and deferred revenue	8,532	8,490
Notes payable (Note 10)	9,900	510
Interest rate swap, at fair value (Note 11)	604	156
Bonds payable (Note 11)	73,064	73,183
Liability for split-interest agreements	6,814	7,465
Federal loan program advances	<u>5,396</u>	<u>5,455</u>
Total liabilities	<u>127,235</u>	<u>113,140</u>
NET ASSETS (Note 13)		
Unrestricted	133,423	134,637
Temporarily restricted	197,352	229,044
Permanently restricted	<u>135,632</u>	<u>132,879</u>
Total net assets	<u>466,407</u>	<u>496,560</u>
Total liabilities and net assets	<u>\$ 593,642</u>	<u>\$ 609,700</u>

The accompanying notes are an integral part of these consolidated financial statements.

CLARK UNIVERSITY
Consolidated Statements of Activities
For the years ended May 31, 2016 and 2015
(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
REVENUES AND OTHER SUPPORT					
Operating revenues					
Tuition and fees	\$ 125,857	\$ -	\$ -	\$ 125,857	\$ 120,476
Financial aid discount	(59,360)	-	-	(59,360)	(56,296)
Net tuition and fees	66,497	-	-	66,497	64,180
Auxiliary services	15,138	-	-	15,138	14,428
Contributions	2,547	1,228	-	3,775	3,156
Income appropriated under spending policy	13,850	3,063	-	16,913	15,612
Grants and contracts	5,045	-	-	5,045	5,618
Federal student financial aid	1,046	-	-	1,046	1,046
Other investment return	(2)	5	-	3	15
Other income	2,284	650	-	2,934	2,564
Net assets released from restrictions	4,060	(4,060)	-	-	-
Total operating revenues and other support	110,465	886	-	111,351	106,619
EXPENSES (Note 15)					
Operating expenses					
Instruction	43,382	-	-	43,382	40,826
Student services	12,704	-	-	12,704	12,314
Academic support	15,284	-	-	15,284	14,885
General institutional	10,065	-	-	10,065	9,295
Alumni and development	4,663	-	-	4,663	4,935
Research	7,566	-	-	7,566	7,666
Auxiliary services	13,051	-	-	13,051	13,104
Total operating expenses	106,715	-	-	106,715	103,025
Change in net assets from operations	3,750	886	-	4,636	3,594
NON-OPERATING ACTIVITY					
Investment income (loss) net of amounts appropriated under spending policy	(5,987)	(32,340)	(900)	(39,227)	10,294
Contributions	61	1,080	3,758	4,899	3,035
Income appropriated under spending policy	-	-	230	230	217
Change in value of interest rate swap	(448)	-	-	(448)	(592)
Deficiencies in historical values	(114)	114	-	-	-
Change in value of beneficial interests in outside trusts (Note 7)	-	(7)	(49)	(56)	87
Annuity and unitrust obligation expense	(37)	(7)	(176)	(220)	(519)
Other non-operating charges, net	30	-	3	33	19
Net assets released from restrictions	1,531	(1,418)	(113)	-	-
Total non-operating revenue (expense)	(4,964)	(32,578)	2,753	(34,789)	12,541
Change in net assets	(1,214)	(31,692)	2,753	(30,153)	16,135
Net assets - beginning of year	134,637	229,044	132,879	496,560	480,642
Net assets - end of year	\$ 133,423	\$ 197,352	\$ 135,632	\$ 466,407	\$ 496,777

The accompanying notes are an integral part of these consolidated financial statements.

CLARK UNIVERSITY
Consolidated Statement of Activities
For the year ended May 31, 2015
(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
REVENUES AND OTHER SUPPORT				
Operating revenues				
Tuition and fees	\$ 120,476	\$ -	\$ -	\$ 120,476
Financial aid discount	(56,296)	-	-	(56,296)
Net tuition and fees	64,180	-	-	64,180
Auxiliary services	14,428	-	-	14,428
Contribution revenue	2,571	585	-	3,156
Income appropriated under spending policy	12,654	2,741	217	15,612
Grants and contracts	5,618	-	-	5,618
Federal student financial aid	1,046	-	-	1,046
Other investment return	10	5	-	15
Other income	2,486	78	-	2,564
Net assets released from restrictions	4,064	(4,064)	-	-
Total operating revenues and other support	<u>107,057</u>	<u>(655)</u>	<u>217</u>	<u>106,619</u>
EXPENSES (Note 15)				
Operating expenses				
Instruction	40,826	-	-	40,826
Student services	12,314	-	-	12,314
Academic support	14,885	-	-	14,885
General institutional	9,295	-	-	9,295
Alumni and development	4,935	-	-	4,935
Research	7,666	-	-	7,666
Auxiliary services	13,104	-	-	13,104
Total operating expenses	<u>103,025</u>	<u>-</u>	<u>-</u>	<u>103,025</u>
Change in net assets from operations	<u>4,032</u>	<u>(655)</u>	<u>217</u>	<u>3,594</u>
NON-OPERATING REVENUE (EXPENSE)				
Investment income net of amounts				
appropriated under spending policy	1,545	8,046	703	10,294
Contributions	81	1,269	1,685	3,035
Changes in value of interest rate swap	(592)	-	-	(592)
Change in value of beneficial interests in				
outside trust (Note 3)	-	(1)	88	87
Annuity and unitrust obligation expense	(94)	(14)	(411)	(519)
Other non-operating charges, net	(31)	-	50	19
Net assets released from restrictions	1,640	(1,640)	-	-
Total non-operating revenue (expense)	<u>2,549</u>	<u>7,660</u>	<u>2,115</u>	<u>12,324</u>
Change in net assets	6,581	7,005	2,332	15,918
Net assets - beginning of year	<u>128,056</u>	<u>222,039</u>	<u>130,547</u>	<u>480,642</u>
Net assets - end of year	<u>\$ 134,637</u>	<u>\$ 229,044</u>	<u>\$ 132,879</u>	<u>\$ 496,560</u>

The accompanying notes are an integral part of these consolidated financial statements.

CLARK UNIVERSITY
Consolidated Statements of Cash Flows
For the years ended May 31, 2016 and 2015
(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (30,153)	\$ 15,918
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	8,085	8,097
Amortization of bond issuance costs and bond premium/discount	(78)	(97)
Gain on extinguishment of debt	(85)	-
Contributions restricted for long-term purposes	(4,899)	(3,039)
Interest and dividends restricted for long-term purposes - net	(1,283)	(1,521)
Donated assets (non-cash) contributions and payments	(41)	(153)
Realized and unrealized investment gains	23,036	(24,688)
Loss on disposal of land, buildings and equipment	93	-
Changes in assets and liabilities		
Accounts receivable and interest and dividends receivable	(241)	(291)
Prepaid expenses and other assets	(92)	(53)
Contributions receivable	311	607
Grants and contracts receivable	(318)	(190)
Beneficial interests in outside trusts	56	(87)
Accounts payable and accrued expenses	5,380	803
Other liabilities	(46)	702
Annuities and unitrust obligations	(651)	(324)
Deposits and deferred revenue	42	(440)
Interest rate swap	448	592
Advance payments under grants	(290)	(264)
Net cash used in operating activities	<u>(726)</u>	<u>(4,428)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable	(431)	(167)
Purchase of land, buildings, equipment and construction in progress	(21,094)	(11,290)
Proceeds from sales of investments	41,667	19,049
Purchases of investments	(30,800)	(6,245)
Interest and dividends restricted for long-term purposes - net	1,283	1,521
Net change in funds held by trustees	<u>(3,628)</u>	<u>(34)</u>
Net cash (used in) provided by investing activities	<u>(13,003)</u>	<u>2,834</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	4,899	3,039
Decrease in federal loan program advances	(59)	(25)
Payments of financing and issuance costs	(419)	-
Extinguishment of debt	(14,360)	-
Proceeds from bonds payable	17,895	-
Principal payments on bonds payable	(3,190)	(2,790)
Issuance (payments) of notes payable	9,390	(140)
Donated assets (non-cash) contributions and payments	(3,367)	(1,685)
Issuance of loan receivable	(6,651)	-
Net cash provided by (used in) financing activities	<u>4,138</u>	<u>(1,601)</u>
Net decrease in cash and cash equivalents	<u>(9,591)</u>	<u>(3,195)</u>
Cash and cash equivalents - beginning of year	48,988	52,183
Cash and cash equivalents - end of year	<u>\$ 39,397</u>	<u>\$ 48,988</u>
Supplemental disclosures:		
Cash paid for interest	\$ 1,555	\$ 1,715
Capital lease obligations incurred to acquire assets	\$ -	\$ 960
Additions to land, buildings, equipment and construction in progress remaining in accounts payable and accrued expense at year-end.	\$ 6,260	\$ 1,682

The accompanying notes are an integral part of these financial statements.

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2016 and 2015
(in thousands of dollars)

1. ORGANIZATION

Clark University (the “University”) was established in 1887 and serves as a teaching and research institution offering undergraduate and graduate degrees to approximately 3,500 full and part-time students drawn from 43 states and 83 foreign countries. The University’s main campus is located in Worcester, Massachusetts. The University is accredited by the New England Association of Schools and Colleges and offers liberal arts-based education as well as professional master’s degree and doctoral programs.

The University participates in student financial assistance programs sponsored by the United States Department of Education and the Commonwealth of Massachusetts, which facilitate the payment of tuition and other expenses for certain students.

In November of 2015, Clark University established Jonas Realty Corporation (“JRC”), a Massachusetts not-for-profit organization, to support and operate for the benefit of Clark University. JRC is a 501 (c)(3) as a functionally integrated supporting organization of Clark University to hold and manage the land and building of the Alumni and Student Engagement Center. Clark University is the controlling member of JRC and, as such, the financial statements of JRC have been consolidated with the financial statements of the University. All intercompany transactions have been eliminated in the consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the University.

Basis of Presentation

The accompanying consolidated financial statements of the University have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Net assets, revenues, expenses, gains, and losses are classified into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted, and unrestricted net assets.

Permanently restricted net assets generally represent the historical cost (fair value at date of gift) of contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the University. Permanently restricted net assets also include certain life income funds (in cases where the remainder interest for such gifts is permanently restricted) and certain perpetual revolving loan funds that have been established by donors for the benefit of students at the University. The life income and revolving loan funds are recorded at fair value. Adjustments for uncollectible loans from the revolving loan funds are accounted for as net assets released from restrictions.

Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the University is limited by law or donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations.

CLARK UNIVERSITY
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(in thousands of dollars)

Unrestricted net assets generally result from contributions or other inflows of assets whose use by the University is not limited by donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the University or may otherwise be limited by contractual agreement with outside parties.

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. Realized and unrealized 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 stipulation or by law.

Expirations of temporary restrictions on net assets are reported as “net assets released from restrictions” in the Statements of Activities.

In certain situations, donor-restricted gifts which are received and spent within the same year are reported as unrestricted revenues.

Operating activities presented in the Statements of Activities consist of revenues earned, net investment return of the endowment appropriated by Clark’s Board of Trustees for spending, and expenses incurred in conducting Clark’s programs and services. Functional classifications of expenses include instruction, student services, academic support, auxiliary services (primarily operation of residence halls and dining services), alumni and development, research, and general institutional (communications, community and government relations, centralized services, and administrative services). Depreciation and facilities operation and maintenance expenses are allocated to the functional classifications based on the use and square footage of each building. Interest expense is allocated to the functional classifications based on the use of each building that has been debt financed.

Non-operating activities presented in the Statements of Activities include endowment investment activity net of amounts appropriated for spending; contributions and gifts that are restricted by donors to invest in perpetuity or to support the construction and purchase of capital assets; net change in life income and similar split-interest agreements; and the net change in the estimated value of the interest rate swap agreement. Non-operating activities also present changes in net asset classification when donor restrictions for non-operating activities have been met.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant estimates made by the University involve allowances for uncollectible accounts, net realizable values of contributions receivable, economic useful lives of buildings and equipment, conditional asset retirement obligations, fair values of investments and interest rate swap, impairment of land, buildings and equipment, beneficial interests in outside trusts, and present values of annuity payment liabilities. Actual results could differ from those estimates.

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2016 and 2015
(in thousands of dollars)

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid instruments purchased with an initial maturity of three months or less, excluding balances whose use is restricted or that are included in the investment accounts.

Concentration of Credit Risk

The University maintains cash balances at several banks in excess of federally insured limits. The University also maintains cash balances in money market funds which have Securities Investor Protection Corporation insurance to cover its position if the fund or fund manager defaults. The University has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

Other Assets

Other assets include prepaid expenses such as insurance as well as inventories. Inventories consist principally of supplies and are carried at cost.

Unconditional Promises

Gifts which are recorded at fair value when received, including unconditional promises to give, are recorded as revenue when the donor's written commitment is received. Unconditional pledges of more than one year are recorded after discounting to the present value of expected future cash flows, net of an allowance for unfulfilled pledges.

Bond Issuance Costs and Bond Discount/Premium

Costs incurred in connection with bond issuance are deferred and amortized on a straight-line basis over the life of the respective debt issues; original issue discount or premium is amortized over the life of the respective debt issues using the effective interest method.

Beneficial Interests in Outside Trusts

The University's split interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and charitable remainder trusts. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenue is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments made to the respective donors and/or other beneficiaries or at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

The University records its beneficial interests in trusts at the fair value of the assets contributed to the trust at the time the University is notified of the trust's existence. Annual changes in the market value of the assets are recognized as temporarily or permanently restricted gains or losses within non-operating revenue (expenses) in the Statements of Activities.

Investments

Investments other than real estate, life insurance policies and notes receivable are stated at fair value. Real estate is stated at the fair value at the time of donation, life insurance policies are stated at cash surrender value and notes receivable are stated at the outstanding principal amount of the notes (the recorded amounts for these assets approximate fair value). The fair value of publicly traded securities is based upon quoted

CLARK UNIVERSITY
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market prices or net asset values. Other securities for which no such quotations or valuations are readily available are carried at estimated fair values. The estimated fair value of these investments is based on valuations provided by external investment managers and reviewed by management. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. Securities contributed to the University are recorded at fair value on the date of the gift.

Changes in fair value are recorded as unrealized gains or losses on investments. Realized gains or losses from the sale of investment securities are computed on the specific-identification-cost basis or, for pooled funds, on the average-cost basis.

Collections of Art, Historical Treasures, and Other Similar Assets

The University houses certain collections of works of art, literary works and artifacts. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, these collections are not recorded or capitalized for financial statement purposes.

Land, Buildings, and Equipment

Land, buildings, equipment and information technology (IT) equipment are recorded at cost on the date of acquisition or construction or, if received as a gift, at the fair value at the time of receipt, net of accumulated depreciation.

Depreciation is computed on a straight-line basis using a half-year convention for new additions over the following estimated useful lives:

Buildings	50 years
Building improvements	20 years
Capital leases	Life of lease
Furniture, fixtures, and equipment	8 years, 4 years for IT
Internal use software, minor and major	5 years and 10 years
Land improvements and infrastructure	15 years
Leasehold improvements	Shorter of useful life or lease period

Expenditures for maintenance, repairs, and books for the library are charged to operations as incurred; betterments that materially extend the life of the assets are capitalized. Capital assets are removed from the records at the time of disposal, and any resulting gain or loss is included in the Statements of Activities.

Conditional Asset Retirement Obligations

In the normal course of its operations, the University incurs legal obligations to perform certain retirement activity with regard to the ultimate disposition of some of its tangible long-lived assets due to the nature of material used in their construction or operation. The timing of the performance of these retirement

CLARK UNIVERSITY
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(in thousands of dollars)

activities is within the control of the University and, due to the long useful lives of these assets, will be performed at some future date. The University has recorded a liability of \$1,079 for these activities for both May 31, 2016 and 2015. The estimated liability relates principally to buildings and equipment that are partially depreciated.

Income Taxes

The University and JRC are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), and are generally exempt from income taxes pursuant to Section 501(a) of the Code. The University is required to assess uncertain tax positions and has determined that there were no such positions that are material to the consolidated financial statements.

Federal Student Loan Advances

These amounts include funds advanced to the University under the Federal Perkins Loan Program. Such funds may be re-loaned by the University after collection. In the event that the University no longer participates in the Program, the amounts are generally refundable to the federal government.

Revenue Recognition

Substantially all of the University's revenue is derived from student tuition and fees, private contributions, federal and state student assistance, and auxiliary enterprises related to the University. Auxiliary enterprises include dining halls, residence halls, and other undertakings which provide services primarily to students, faculty, and staff for fees directly related to, but not necessarily equivalent to, the costs of the services. Tuition, fees and auxiliary revenue are recognized as revenue in the period to which they relate. Student deposits and deferred revenue represent tuition and student deposits paid in advance, which are recognized as income when the related educational services are provided.

Under its Accelerated Degree Program, the University offers qualifying undergraduate students the opportunity to receive a graduate tuition scholarship. Under the scholarship, students may receive up to one hundred percent remission of their graduate tuition. In connection with this scholarship program, at May 31, 2016 and 2015, the University had deferred revenue of \$6,005 and \$6,153, respectively.

Contracts and Grants

Federal government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct and indirect costs as the related costs are incurred or expended. Recovery of related indirect costs generally is recorded at predetermined fixed rates negotiated with the federal government.

Capitalized Interest

Interest related to the construction of capital assets is capitalized as a component of the cost of acquired capital assets. The amount of interest capitalized for the year ended May 31, 2016 was \$38. There was no interest capitalized for the year ended May 31, 2015.

Financial Aid Discount

The University's financial aid grants are reported in the Statements of Activities as an adjustment to revenues. The financial aid program assists all students with demonstrated need, defined in accordance

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2016 and 2015
(in thousands of dollars)

with a uniform formula, by providing a mix of grants and loans designed to help cover some of the costs of attendance when combined with student and family contributions based upon ability to pay. Additionally, the University maintains a merit aid program. Student assistance is funded, in part, by income from endowed scholarship funds, gifts for specific scholarships and unrestricted gifts available for use in current operations.

Federal and State Student Assistance

Substantial financial aid for students is provided by grants (including work study) and loans through federal and state programs. Federal aid totaled \$16,360 and \$16,694 for the years ended May 31, 2016 and 2015, respectively. Federal Pell Grants and Direct Student Loans in the amount of \$15,314 and \$15,648 for the years ended May 31, 2016 and 2015, respectively, are pass-through funding to students and are not presented in the Statements of Activities. State aid totaled \$663 and \$628 for the years ended May 31, 2016 and 2015, respectively.

Functional Expense Allocation

Expenses have been allocated to programmatic and non-programmatic functions based on the estimated percentage of effort, usage, square footage and other criteria.

3. NEW MARKET TAX CREDIT

During fiscal year 2016, the University financed the land acquisition and building construction of the Alumni and Student Engagement Center (the “Project”), a commercial building located at 939 Main Street in Worcester, primarily for classroom and office space used in support of its Liberal Education and Effective Practice (“LEEP”) initiative. This was accomplished through JRC (see Note 1) which entered into several debt transactions in order to fund the Project, including accessing the New Market Tax Credit (“NMTC”) program. The NMTC program offers credits against federal income taxes over a seven year period for Qualified Equity Investments in designated Community Development Entities (“CDEs”) pursuant to Section 45D of the Internal Revenue Code in order to assist eligible businesses in making investments in certain low-income communities. JRC is a Qualified Active Low Income Community Business for the purpose of the NMTC program.

An investment fund (the “Fund”) was established and funded by a leveraged loan of \$6,651 from the University and an investment of NMTC equity from an investor (Fund Investor). The Fund invested in CDEs controlled by Massachusetts Housing Investment Corporation (“MHIC”) and The Community Builders (“TCB”) which made loans to JRC on November 20, 2015 as follows:

<u>Loan</u>	<u>Amount</u>
TCB CDE IX B-2	\$ 853
TCB CDE IX A-2	1,863
MHIC MPM-1	4,788
MHIC MPM-2	<u>2,196</u>
Total	<u>\$ 9,700</u>

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JRC used the borrowed funds and a capital contribution of \$13,833 from the University to fund property purchases, construction costs and transaction financing costs for the Alumni and Student Engagement Center. JRC and the University entered into a lease for the University to use the building with a monthly rent payment beginning December 1, 2016.

Interest on the four loans is paid by JRC to MHIC and TCB, commencing on December 1, 2015, at 0.75% per annum. The notes all mature on December 31, 2049 with interest only payments through December 1, 2022 and principal and interest payments from January 1, 2023 to the maturity date of December 31, 2049. The University provided a limited payment guaranty and a completion guaranty to the CDEs to secure the loans.

The loan receivable and related interest receivable from the Fund to the University are recorded in Loan Receivable. JRC has recorded the loan obligations owed to MHIC and TCB in Notes Payable. Because there is no right of offset between the loan receivable due to the University and the notes payable by JRC, the loan receivable and notes payable are presented separately on the Consolidated Statement of Financial Position.

The leveraged loan matures on December 31, 2043, and the Fund will pay the University interest only at a rate of 1.00% per annum for the outstanding balance commencing December 10, 2015. Amortization begins January 1, 2023, with the first amortizing payment due December 10, 2023.

At the end of the seven year tax credit investment period, and for the following six months (Put Option Period), between January 1, 2023 and July 1, 2023, the Fund Investor has an option, but not an obligation, to sell to the University the Fund Investor's interest in the Fund for a put exercise price of \$1. If the put is not exercised, then the University has the right and option, at any time during the six month period following the Put Option Period, to elect to purchase the Fund Investor's interest in the Fund, at an amount equal to the fair market value at the time of exercise.

Interest expense related to the outstanding notes payable for the year ended May 31, 2016 was \$41. Interest income related to the loan receivable for the year ended May 31, 2016 was \$37.

4. FUNDS HELD BY TRUSTEES

The University has several funds held by trustees, which are restricted as to use according to debt agreements. As of May 31, 2016 and 2015, the University had debt service fund collateral and debt reserve funds totaling \$862 and \$850, respectively. Additionally, the University had \$177 of proceeds remaining at the end of 2016 from the Capital One bonds issued in fiscal 2016 (see Note 11) and JRC had \$3,439 in proceeds remaining at the end of fiscal 2016 from loans issued in connection with the New Market Tax Credit transaction in 2016. All proceeds were restricted for facilities projects.

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5. CONTRIBUTIONS RECEIVABLE

Contributions receivable at May 31, 2016 and 2015 are time restricted and also have the following purpose restrictions:

	<u>2016</u>	<u>2015</u>
Endowment for academic purposes	\$ 85	\$ 85
Endowment for scholarships	109	113
Endowment for other programs	8	-
Nonendowment academic	258	204
Nonendowment facilities	2,449	3,134
Nonendowment other	524	263
Nonendowment scholarship	241	201
Unrestricted	<u>192</u>	<u>191</u>
Total contributions receivable	<u>\$ 3,866</u>	<u>\$ 4,191</u>

Contributions are expected to be realized in the following periods:

	<u>2016</u>	<u>2015</u>
In less than one year	\$ 2,402	\$ 2,540
Between one year and five years	<u>1,464</u>	<u>1,651</u>
Total contributions receivable	<u>3,866</u>	<u>4,191</u>
Less:		
Present value discount (discount rates range from 0.625% to 10.33%) and allowance for unfulfilled pledges	<u>(388)</u>	<u>(402)</u>
Contributions receivable, net	<u>\$ 3,478</u>	<u>\$ 3,789</u>

The University also has been notified of revocable bequest intentions which have not been recorded in the consolidated financial statements as of May 31, 2016 and 2015.

6. STUDENT LOANS RECEIVABLE

The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. As of May 31, 2016 and 2015, student loans represented 1% and 0.9%, respectively, of total assets.

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At May 31, 2016 and 2015, student loans consisted of the following:

	<u>2016</u>	<u>2015</u>
Federal Perkins Loan Program	\$ 5,922	\$ 5,477
University Loan Program	<u>369</u>	<u>357</u>
Total student loans receivable	<u>6,291</u>	<u>5,834</u>
Less allowance for doubtful loans		
Beginning of year	(387)	(452)
Decrease/(increase)	<u>(25)</u>	<u>66</u>
End of year allowance for doubtful loans	<u>(412)</u>	<u>(386)</u>
Student loans receivable, net	<u>\$ 5,879</u>	<u>\$ 5,448</u>

The University participates in the Federal Perkins Loan Program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$5,396 and \$5,455 at May 31, 2016 and 2015, are ultimately refundable to the government and are classified as liabilities in the Statements of Financial Position. Outstanding loans cancelled under the program result in a reduction of the funds available for loans and a corresponding decrease in the liability to the government.

At May 31, 2016 and 2015, the following amounts were past due under both student loan programs:

<u>May 31,</u>	<u>1-59 Days Past Due</u>	<u>60 - 90 Days Past Due</u>	<u>90+ Days Past Due</u>	<u>Total Past Due</u>
2016	<u>\$ 159</u>	<u>\$ 58</u>	<u>\$ 857</u>	<u>\$ 1,074</u>
2015	<u>\$ 185</u>	<u>\$ 40</u>	<u>\$ 767</u>	<u>\$ 992</u>

Allowances for doubtful loans are established based on prior collection experience for the previous 3 years and the current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. University loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Federal Perkins Loan Program are assignable to the government; therefore, the allowance calculation is based on the probable credit loss for the institutional portion of the fund and a percentage of the portfolio that may not be assignable to the federal government.

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7. INVESTMENTS

As of May 31, 2016 and 2015, investments consisted of the following:

	<u>2016</u>	<u>2015</u>
Marketable securities		
Fixed income		
Money market mutual funds	\$ 6,445	\$ 842
Government bonds	61	61
Equity securities	44,298	64,891
Partnerships		
Private equity/venture capital	11,943	12,955
Private equity international	5,272	6,135
Real assets	31,511	37,556
Absolute return/hedge funds	183,396	182,151
Debt funds	19,917	20,409
International equity mutual funds	77,060	85,287
Other	111	126
Real estate, life insurance, notes	531	853
Other	1,527	332
Beneficial interest in trusts	<u>10,268</u>	<u>11,236</u>
 Total investments	 <u>\$ 392,340</u>	 <u>\$ 422,834</u>

Beneficial interest in trusts as of May 31, 2016 is comprised of marketable investments of \$491 in money market mutual funds, \$7,713 in equity mutual funds, \$1,720 in bonds, and \$344 in publicly traded real estate investment trusts (REIT's). Beneficial interest in trusts as of May 31, 2015 was comprised of marketable investments of \$299 in money market mutual funds, \$8,689 in equity mutual funds, \$1,885 in fixed income mutual funds, and \$363 in publicly traded real estate investment trusts (REIT's).

Overall investment results on all investments, net of investment expenses and management fees, are summarized in the table below. Certain investment expenses were paid directly by the University for investment advisors and custodial services totaling \$316 and \$311 for the years ended May 31, 2016 and 2015, respectively.

	<u>2016</u>	<u>2015</u>
Net realized and unrealized gain (loss)	\$ (23,036)	\$ 24,688
Interest and dividends, net	955	1,226
Split-interest agreement annuity payments, change in annuities and unitrusts payable, and related expenses, net	(276)	(431)
Interest and dividends - funds held by trustee	<u>-</u>	<u>6</u>
 Total investment return	 <u>\$ (22,357)</u>	 <u>\$ 25,489</u>

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For the years ended May 31, 2016 and 2015, investment return is reported in the Statements of Activities as follows:

	<u>2016</u>	<u>2015</u>
Income appropriated under spending policy	\$ 17,143	\$ 15,612
Investment income net of amounts appropriated under spending policy	(39,227)	10,294
Other investment return	3	15
Change in value of beneficial interests in outside trusts	(56)	87
Annuity and unitrust obligation expense	<u>(220)</u>	<u>(519)</u>
Total investment return	<u>\$ (22,357)</u>	<u>\$ 25,489</u>

Endowment and annuity funds are generally pooled for investment purposes. Units of the pool are assigned on the basis of market value per unit at the beginning of the quarter in which funds are received. Income is distributed quarterly, thereafter, on a per-unit basis.

In conjunction with the annuity funds, the University has recorded a liability, included in annuities and unitrusts payable, equal to the present value of future cash flows expected to be paid to the beneficiaries based upon their actuarial expected lives.

As of May 31, 2016 and 2015, the University had outstanding commitments for investments in partnerships amounting to \$27,257 and \$20,133, respectively.

The University has indirect investments in derivative financial instruments through partnership investments. Derivatives, such as forward foreign currency contracts and futures contracts, are used by the partnerships to hedge against risk.

8. FAIR VALUE MEASUREMENTS

The University measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A fair value hierarchy is used to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - inputs include quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 - inputs are unobservable for the asset or liability and reflect management's own estimates.

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An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Contributions Receivable

Contributions receivable are reported based on non-recurring fair value measurements and classified as Level 3. Any multi-year pledges received are initially recorded at the present value of estimated future cash flows. The discounts on these pledges are computed using rates commensurate with the risks involved and applicable to the year in which the promise is expected to be received.

Investments

Investments whose values are based on quoted market prices in active markets are classified as Level 1. These investments primarily consist of publicly traded mutual funds, government bonds, corporate bonds and equity securities. Investments whose values are based on prices in markets that are not active are classified as Level 2. Interests in private partnerships that can be redeemed at the measurement date at net asset value ("NAV") are classified as Level 2. Interests in private partnerships that are not redeemable at the measurement date are classified as Level 3 when there are not observable inputs and management is required to estimate fair value using one or more valuation technique(s).

Beneficial Interests in Trusts

Assets held in outside trusts are classified as Level 3, as the University is not the trustee for these trusts and the unit of ownership is an individual interest in the trust; the University determines the fair value of the outside trusts based on the underlying investments. Assets held in other trusts are classified according to the nature of the underlying assets in the trust as the University is the trustee for these trusts.

Annuities and Unitrusts Payable

Annuities and Unitrusts Payable are based on non-recurring Level 3 fair value measurements. These instruments are initially recorded at the present value of future cash flows with a fair value discount rate adjusted for any market conditions to determine fair value.

Interest Rate Swap

The fair value of interest rate swap agreements is estimated through the use of pricing models which reflect the contractual terms of the swap and where the inputs to those models are readily observable from actively quoted markets.

The fair value of the University's interest rate swap is determined based on a discounted cash flow method using the following significant inputs: the contractual terms of the swap such as the notional amount, fixed coupon rate, floating coupon rate (based on interbank rates consistent with the frequency and currency of the interest cash flows) and tenor.

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The following tables set forth the University's financial assets and liabilities that were accounted for at fair value on a recurring basis as of May 31, 2016 and 2015 by level within the fair value hierarchy.

	May 31, 2016			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Marketable securities				
Money market mutual funds	\$ 6,445	\$ -	\$ -	\$ 6,445
Government bonds	61	-	-	61
Equity securities	44,298	-	-	44,298
Partnerships				
Private equity/venture capital	-	-	11,943	11,943
Private equity international	-	-	5,272	5,272
Real assets	-	-	31,511	31,511
Absolute return/hedge funds	-	67,605	115,791	183,396
Debt funds	-	19,917	-	19,917
International equity mutual funds	-	77,060	-	77,060
Other	-	111	-	111
Other	-	-	1,527	1,527
Beneficial interest in trusts	10,268	-	-	10,268
Beneficial interests in outside trusts	-	-	1,302	1,302
Total	<u>\$ 61,072</u>	<u>\$ 164,693</u>	<u>\$ 167,346</u>	<u>\$ 393,111</u>
Liabilities				
Interest rate swap agreement	\$ -	\$ 604	\$ -	\$ 604
Total	<u>\$ -</u>	<u>\$ 604</u>	<u>\$ -</u>	<u>\$ 604</u>

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	May 31, 2015			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Marketable securities				
Money market mutual funds	\$ 842	\$ -	\$ -	\$ 842
Government bonds	61	-	-	61
Equity securities	64,891	-	-	64,891
Partnerships				
Private equity/venture capital	-	-	12,955	12,955
Private equity international	-	-	6,135	6,135
Real assets	-	-	37,556	37,556
Absolute return/hedge funds	-	44,490	137,661	182,151
Debt funds	-	20,409	-	20,409
International equity mutual funds	-	85,287	-	85,287
Other	-	126	-	126
Other	-	-	332	332
Beneficial interest in trusts	11,236	-	-	11,236
Beneficial interests in outside trusts	-	-	1,358	1,358
Total	<u>\$ 77,030</u>	<u>\$ 150,312</u>	<u>\$ 195,997</u>	<u>\$ 423,339</u>
Liabilities				
Interest rate swap agreement	\$ -	\$ 156	\$ -	\$ 156
Total	<u>\$ -</u>	<u>\$ 156</u>	<u>\$ -</u>	<u>\$ 156</u>

The following table presents a roll forward by investment category of the change in the value of Level 3 assets for the year ended May 31, 2016:

	Beginning Balance at June 1, 2015	Realized/ Unrealized Gains	Net Purchases (Redemptions)	Ending Balance at May 31, 2016
Private equity/venture capital	\$ 12,955	\$ 274	\$ (1,286)	\$ 11,943
Private equity international	6,135	891	(1,754)	5,272
Real assets	37,556	(952)	(5,093)	31,511
Absolute return/hedge funds	137,661	(7,870)	(14,000)	115,791
Other	332	(3)	1,198	1,527
Beneficial interests in outside trusts	<u>1,358</u>	<u>(56)</u>	<u>-</u>	<u>1,302</u>
Total	<u>\$ 195,997</u>	<u>\$ (7,716)</u>	<u>\$ (20,935)</u>	<u>\$ 167,346</u>

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There were no transfers between levels during the year ended May 31, 2016.

The following table presents a roll forward by investment category of the change in value of Level 3 assets for the year ended May 31, 2015:

	Beginning Balance at June 1, 2014	Realized/ Unrealized Gains	Net Purchases (Redemptions)	Transfer Out of Level 3	Ending Balance at May 31, 2015
Private equity/venture capital	\$ 16,561	\$ 2,194	\$ (5,800)	\$ -	\$ 12,955
Private equity international	8,381	(123)	(2,123)	-	6,135
Real assets	39,600	1,859	(3,903)	-	37,556
Absolute return/hedge funds	130,171	7,490	-	-	137,661
Other	393	14	5	(80)	332
Beneficial interests in outside trusts	<u>1,271</u>	<u>87</u>	<u>-</u>	<u>-</u>	<u>1,358</u>
Total	<u>\$ 196,377</u>	<u>\$ 11,521</u>	<u>\$ (11,821)</u>	<u>\$ (80)</u>	<u>\$ 195,997</u>

The following table sets forth the liquidity, redemption policies and unfunded commitments of the University's investments that have been accounted for using NAV per share or its equivalent as a practical expedient for calculating fair value as of May 31, 2016.

Investments	Fair Value	Commitments	Frequency	Notice Period
Partnership-Other	\$ 111	\$ -	quarterly	90 days notice
Private equity/Venture Capital	10,546	5,242	temporarily illiquid	(1)
Private equity/Venture Capital	1,397	10,344	illiquid	
Private equity international	5,272	923	temporarily illiquid	(1)
Real assets	27,568	10,748	temporarily illiquid	(1)
Real assets	3,600	-	quarterly	90 days notice
Real assets	343	-	illiquid	
Absolute Return/Hedge	183,396	-	monthly	30 days notice
Debt funds	19,917	-	monthly	30 days notice
International equity mutual funds	77,060	-	daily, monthly	30 days notice
Other	<u>1,527</u>	<u>-</u>	temporarily illiquid	(1)
Total	<u>\$ 330,737</u>	<u>\$ 27,257</u>		

(1) Temporarily illiquid includes lockups with definite expiration dates or funds in liquidation which have suspended normal liquidity terms or trusts that become liquid upon death of final beneficiary.

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9. LAND, BUILDINGS, EQUIPMENT AND CONSTRUCTION IN PROGRESS

Land, buildings, equipment and construction in progress consisted of the following at May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 8,351	\$ 8,351
Land improvements and infrastructure	13,252	11,588
Buildings	102,890	102,890
Building improvements	91,759	89,653
Furniture, fixtures, and equipment	9,813	10,929
Assets under capital lease	993	993
Internal use software	512	329
Leasehold improvements	<u>69</u>	<u>53</u>
Total	227,639	224,786
Less accumulated depreciation	(114,412)	(108,147)
Construction in progress	<u>22,997</u>	<u>6,669</u>
Land, buildings and equipment, net	<u>\$ 136,224</u>	<u>\$ 123,308</u>

The FY16 figures above include activity residing in JRC. Specifically, \$1,545 of land and \$20,008 of construction in progress is attributable to JRC.

The University has entered into contracts for various construction projects on campus. The total obligation for these contracts is \$20,884 of which \$18,275 had been expended at May 31, 2016.

10. COMMITMENTS AND CONTINGENCIES

Notes Payable

The University's contract for dining services includes a provision for the interest-free repayment of investments in dining facilities made by the contractor. The balance was \$200 and \$510 on May 31, 2016 and 2015, respectively. The remaining balance is amortized by the contractor over the life of the contract and is payable only in the event the contract is terminated. The amortization schedule is \$100 in FY 2017 and \$100 in FY 2018.

JRC has loans outstanding which are payable to two Community Development Entities, The Community Builders and Massachusetts Housing and Investment Corporation, issued in November of 2015 in connection with the acquisition of land and construction of the Alumni and Student Engagement Center in the amount of \$9,700. See Footnote 3 for detail.

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Leases

The University leases campus space, automobiles, and office equipment under operating lease agreements.

The University also leases equipment under leases which are classified as capital leases. The obligation associated with these leases is included in other liabilities in the Statements of Financial Position. The amount of assets recorded under capital leases is included in land, buildings, equipment and construction in progress and had a capitalized value of \$993 for both May 31, 2016 and 2015, with related accumulated amortization of \$503 and \$256, as of May 31, 2016 and 2015, respectively.

Future minimum lease payments under lease agreements for the years ending May 31 are as follows:

Year Ending May 31,	Operating Leases	Capital Leases	Total
2017	\$ 172	\$ 249	\$ 421
2018	170	247	417
2019	174	-	174
2020	172	-	172
2021	51	-	51
2022 and beyond	<u>2,750</u>	<u>-</u>	<u>2,750</u>
Total minimum lease payments	<u>\$ 3,489</u>	<u>\$ 496</u>	<u>\$ 3,985</u>

Lease expense for 2016 and 2015 was \$179 and \$221, respectively.

Contingencies

All funds expended by the University in connection with government grants and contracts are subject to audit by governmental agencies. In the opinion of management, any cost disallowances resulting from these audits would not have a material effect on the University's financial position.

The University is periodically involved in claims, suits, and other legal matters, all of which arise in the normal course of business. Management does not believe that the outcome of any currently pending matters, either individually or in the aggregate, will have a material impact on the University's consolidated financial position or consolidated statement of activities.

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11. BONDS PAYABLE

Bonds payable as of May 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
In November 2005, the University issued \$20,000 of Series 2005 revenue bonds through MDFA for the purpose of the construction of a new residence hall, renovations to Goddard Library, and to refund the outstanding amount of the Series 1996 bonds. The bonds, which carried a fixed interest rate ranging from 4.00% to 5.13%, were due in varying installments, plus interest, with final maturity in 2035. On October 31, 2015, the Series 2005 bonds through MDFA were refinanced by the Capital One 2015 bond.	\$ -	\$ 15,454
In April 2008, the University issued \$50,255 of Series 2008 revenue bonds through MDFA for the purpose of renovations and an addition to Goddard Library, and to redeem the Series 2000 and 2002 bonds. As security for the bonds, TD Bank issued an irrevocable, transferable, direct-pay letter of credit in an amount sufficient to pay the aggregate principal and an amount of up to 45 days' interest on the bonds. The bonds, for which interest is payable at a variable rate (.40% on May 31, 2016) are due in varying installments, plus interest, with final maturity in 2036.	39,290	40,560
In December 2011, the University issued \$19,085 of Series 2011 revenue bonds through MDFA for the purpose of refinancing the University's Series 1998 bonds, to finance the construction, renovation, and/or equipping of certain facilities of the institution, and to pay the costs of issuing the bonds. The bonds, which carry fixed interest rates ranging from 3.00% to 5.00%, are due in varying installments, plus interest, with final maturity in 2028. Sinking fund payments must be made in annual amounts ranging from \$755 to \$1,550. The unamortized original issue discount/premium was \$434 and \$544 as of May 31, 2016 and 2015, respectively.	16,164	17,169
In August 2015, the University issued \$17,895 of Series 2015 revenue bonds through Capital One Municipal Funding for the purpose of refunding the University's Series 2005 bonds, to finance the renovation and/or equipping of certain facilities of the institution, and to pay the costs of issuing the bonds. The bonds carry a fixed interest rate of 2.40% and are due in varying installments plus interest, with final maturity in 2035. Sinking fund payments must be made in annual amounts ranging from \$285 to \$1,085.	<u>17,610</u>	<u>-</u>
	<u>\$ 73,064</u>	<u>\$ 73,183</u>

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Principal payments related to the above indebtedness due in future fiscal years are as follows as of May 31, 2016:

2017	\$	3,225
2018		3,030
2019		3,145
2020		3,260
2021		3,380
Thereafter		<u>56,590</u>
	\$	<u>72,630</u>

The University entered into an interest rate swap agreement with a major financial institution with the intended purpose to effectively fix the interest cost on \$15 million of the Series 2008 bonds at 1.711%. The variable rate received under the term of the swap agreement is calculated at 75% of 1 month LIBOR, which on May 31, 2016 was 0.43880% resulting in an effective rate of 1.382%. The swap agreement expires in October 2032, and the notional principal amount will decrease as the bonds mature. The swap agreement is reported at fair value in the Statements of Financial Position. The fair value of the swap agreement is based on pricing models that consider risks and market factors. The change in the fair value of the swap agreement is reported in non-operating revenue (expense) in the Statements of Activities and amounted to (\$448) in 2016 and (\$592) in 2015, respectively.

The agreements related to the bonds payable contain certain financial covenants which provide for, among other things, debt service requirements. As of May 31, 2016, the University was in compliance with the financial covenants.

Based on estimates using current interest rates available for similar debt of the same remaining maturities, the fair value of the bonds payable outstanding at May 31, 2016 and 2015 is \$74,018 and \$74,235, respectively.

Interest expense on bonds payable was \$1,493 and \$1,700 for 2016 and 2015, respectively.

12. LINE OF CREDIT

The University has a demand note working capital line of credit of \$2 million with TD Bank. The line bears interest at a rate of 30-day LIBOR plus 75 basis points. There were no borrowings outstanding on the line at May 31, 2016 or 2015. The line of credit will expire on February 28, 2017.

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13. COMPONENTS OF NET ASSETS

The components of net assets at May 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted net assets		
Undesignated funds	\$ 77,343	\$ 72,568
Designated funds	<u>56,080</u>	<u>62,069</u>
Total unrestricted net assets	<u>133,423</u>	<u>134,637</u>
Temporarily restricted net assets		
Endowment investment gains	186,352	218,557
Pledges and life insurance policies for nonendowment purposes	3,568	3,929
Unspent endowment income restricted as to purpose	4,301	3,555
Unspent gifts restricted as to purpose	2,754	2,603
Trust agreements neither for unrestricted nor endowed purposes	<u>377</u>	<u>400</u>
Total temporarily restricted net assets	<u>197,352</u>	<u>229,044</u>
Permanently restricted net assets		
Endowed funds	126,648	123,096
Pledges and life insurance policies for endowment purposes	314	282
Trust agreements with endowed purposes	8,024	8,878
Donor-restricted loan funds	<u>646</u>	<u>623</u>
Total permanently restricted net assets	<u>135,632</u>	<u>132,879</u>
Total net assets	<u>\$ 466,407</u>	<u>\$ 496,560</u>

The University has classified certain funds in the Statements of Financial Position as permanently restricted net assets, which is consistent with the donors' primary intent. These funds are, however, through an agreement with the donors, available to the University to meet financial obligations in the event no other sources are available. At May 31, 2016, endowed funds with a fair value of \$89,511 representing \$40,774 of gains in temporarily restricted net assets and \$48,737 of principal in permanently restricted net assets, could be utilized by the Trustees if it should become impossible and/or impractical to employ the funds as the donors intended. Unrestricted designated funds are legally unrestricted funds invested with the University's pooled endowment.

14. ENDOWMENTS

The University's endowment consists of 558 funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the University to function as quasi-endowments. As required by US GAAP, net assets associated with endowment funds, including

CLARK UNIVERSITY
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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.

Interpretation of Relevant Law

In June 2009, the Commonwealth of Massachusetts enacted a version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of the endowed funds among factors for prudent investment and spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board of Trustees is permitted to determine a prudent payout amount, even if the market value of the fund is below the historic-dollar-value. There is an expectation that, over time, the permanently restricted amount will generally remain intact. The perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though the historic-dollar-value may be spent on a temporary basis. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as net appreciation is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the University’s spending policy.

Endowment Investment Policy

The University has adopted an investment philosophy, which combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods, as well as designated funds. Under the University’s investment policy and spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University 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). Decades ago, the University determined it was not capable of independently managing the investment portfolio and that outsourcing its management to a variety of managers with differing strategies was the best course. The Investment Committee of the Board is responsible for selecting the managers. The rationale for including an array of alternative strategy managers for a portion of the University’s portfolio is to reduce overall volatility while providing equity-like returns. Alternative asset classes have historically demonstrated lower volatility on a stand-alone basis compared to traditional asset classes. Additionally, they have had lower correlations, thus providing diversification benefits at the total fund level.

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Spending Policy

The University utilizes the total return method for determining the distribution to pooled funds. The total return includes investment yield (interest and dividends, less investment fees), realized gains (losses), and unrealized appreciation (depreciation). On this basis, the Board of Trustees has established a spending rate of 5.00% based on the average market value per unit of pooled endowment funds for the twenty quarters ended six months prior to the beginning of the current year. Funds that are “underwater” by 20% or less will have spending distributions calculated using the same formula as that adopted by the Board of Trustees for all other endowment funds, provided that this level does not exceed 7% of the beginning market value of any fund that is “underwater.”

Funds that are “underwater” by an amount in excess of 20%, but less than 30%, will be deemed at risk of permanent loss of principal, and spending will be reduced to a level of 2.5% of the beginning market value of the fund, with all further income and capital gains to be added to the principal of the fund until the amount “underwater” has been reduced to less than 20%. This calculation and adjustment will be made only at the beginning of each fiscal year, and continue for at least that year. Funds that are “underwater” by an amount equal to or in excess of 30% will be frozen, with no distribution to support programs unless and until the shortfall amount has been reduced to below 30%. This calculation and adjustment will also be made only at the beginning of each fiscal year, and continue for at least that year. Net assets are released from restriction up to the spending rate.

Endowment Net Asset Composition by Type of Fund as of May 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 184,358	\$ 126,648	\$ 311,006
Board-designated funds	<u>56,080</u>	<u>1,994</u>	<u>-</u>	<u>58,074</u>
Total funds	<u>\$ 56,080</u>	<u>\$ 186,352</u>	<u>\$ 126,648</u>	<u>\$ 369,080</u>

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Notes to Consolidated Financial Statements
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Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 62,069	\$ 218,557	\$ 123,096	\$ 403,722
Investment return:				
Investment income	103	575	-	678
Net depreciation (realized and unrealized)	<u>(3,647)</u>	<u>(18,091)</u>	<u>-</u>	<u>(21,738)</u>
Total investment return	<u>(3,544)</u>	<u>(17,516)</u>	<u>-</u>	<u>(21,060)</u>
Contributions	-	-	3,552	3,552
Appropriations of endowment assets for expenditure (draw)	(2,340)	(14,803)		(17,143)
Other changes:				
Deficiencies in historical values	(114)	114	-	-
Transfer to Board-designated endowment funds	<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>
Total other changes	<u>(105)</u>	<u>114</u>	<u>-</u>	<u>9</u>
Endowment net assets, end of year	<u>\$ 56,080</u>	<u>\$ 186,352</u>	<u>\$ 126,648</u>	<u>\$ 369,080</u>

Endowment Net Asset Composition by Type of Fund as of May 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 216,481	\$ 123,096	\$ 339,577
Board-designated funds	<u>62,069</u>	<u>2,076</u>	<u>-</u>	<u>64,145</u>
Total funds	<u>\$ 62,069</u>	<u>\$ 218,557</u>	<u>\$ 123,096</u>	<u>\$ 403,722</u>

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Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 60,571	\$ 210,525	\$ 120,996	\$ 392,092
Investment return:				
Investment income	90	496	-	586
Net appreciation (realized and unrealized)	<u>3,518</u>	<u>21,009</u>	<u>-</u>	<u>24,527</u>
Total investment return	<u>3,608</u>	<u>21,505</u>	<u>-</u>	<u>25,113</u>
Contributions	-	-	2,100	2,100
Appropriations of endowment assets for expenditure (draw)	(2,139)	(13,473)	-	(15,612)
Other changes:				
Transfer to Board-designated endowment funds	<u>29</u>	<u>-</u>	<u>-</u>	<u>29</u>
Total other changes	<u>29</u>	<u>-</u>	<u>-</u>	<u>29</u>
Endowment net assets, end of year	<u>\$ 62,069</u>	<u>\$ 218,557</u>	<u>\$ 123,096</u>	<u>\$ 403,722</u>

15. FUNCTIONAL EXPENSES PRIOR TO ALLOCATIONS

Functional expenses prior to the allocation of interest, depreciation, and operation and maintenance of the facilities for the years ended May 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Instruction	\$ 39,621	\$ 37,288
Student services	10,027	10,026
Academic support	12,617	12,209
General institutional	7,712	6,819
Alumni and development	4,470	4,696
Operation and maintenance	7,068	6,701
Research	5,041	5,233
Auxiliary services	10,368	10,114
Interest and fees	1,706	1,842
Depreciation	<u>8,085</u>	<u>8,097</u>
Total	<u>\$ 106,715</u>	<u>\$ 103,025</u>

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Allocations to functional areas are based on square footage utilized by function.

16. RETIREMENT PLANS

The University participates in a defined contribution plan administered by the Teachers Insurance & Annuity Association and Fidelity. The plan requires a two-year waiting period before new employees may participate. Participants contribute at least 5% of salary and the University contributes 10% of salary. Expenses recognized by the University related to the above were \$3,957 in 2016 and \$3,708 in 2015.

The University has a health care insurance cost reimbursement program for eligible retired faculty members. Benefits are a fixed monthly amount with no provision for increase over time. Actual expense reimbursements paid under this program during fiscal 2016 and 2015 totaled \$23 and \$19, respectively. As of May 31, 2016 and 2015, the University had accrued \$926 and \$881, respectively, for the health care insurance cost reimbursement program which is included in accrued salary expenses in the Consolidated Statements of Financial Position.

17. RELATED PARTY TRANSACTIONS

A trustee, who began his term on July 1, 2012, is a partner in an investment firm that provides investment services to the University. The investment balance in that fund was \$6,809 and \$6,673 as of May 31, 2016 and 2015, respectively. The University first invested with this firm well prior to his joining the board.

18. SUBSEQUENT EVENTS

For purposes of determining the effects of subsequent events on these consolidated financial statements, management has evaluated events subsequent to May 31, 2016 and through September 16, 2016, the date on which the consolidated financial statements were available to be issued. Management has verified that nothing has transpired that would require modification to the consolidated financial statements through the date of issuance.

SUPPLEMENTAL INFORMATION

CLARK UNIVERSITY
Consolidating Statement of Financial Position
For the year ended May 31, 2016

	Clark University	Jonas Realty Corporation	Total
ASSETS			
Cash and cash equivalents	\$ 39,397	\$ -	\$ 39,397
Funds held by trustees	1,039	3,439	4,478
Interest and dividends receivable	37	-	37
Grants and contracts receivable	1,085	-	1,085
Student accounts receivable, net of allowance for doubtful accounts of \$450 and \$455 in 2016 and 2015, respectively	375	-	375
Other accounts receivable	726	-	726
Loan receivable	6,651	-	6,651
Prepaid expenses and other assets	840	-	840
Contributions receivable - net	3,478	-	3,478
Financing issue costs, unamortized	563	267	830
Student loans receivable - net	5,879	-	5,879
Beneficial interests in outside trusts	1,302	-	1,302
Investments, at fair value	392,340	-	392,340
Land, buildings, equipment, and construction in progress- net of accumulated depreciation	<u>114,671</u>	<u>21,553</u>	<u>136,224</u>
Total assets	<u>\$ 568,383</u>	<u>\$ 25,259</u>	<u>\$ 593,642</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$ 12,285	\$ 6,104	\$ 18,389
Advance payments under grants	1,195	-	1,195
Other liabilities	3,341	-	3,341
Deposits and deferred revenue	8,532	-	8,532
Notes payable	200	9,700	9,900
Interest rate swap, at fair value	604	-	604
Bonds payable	73,064	-	73,064
Liability for split-interest agreements	6,814	-	6,814
Federal loan program advances	<u>5,396</u>	<u>-</u>	<u>5,396</u>
Total liabilities	<u>111,431</u>	<u>15,804</u>	<u>127,235</u>
NET ASSETS			
Unrestricted	123,968	9,455	133,423
Temporarily restricted	197,352	-	197,352
Permanently restricted	<u>135,632</u>	<u>-</u>	<u>135,632</u>
Total net assets	<u>456,952</u>	<u>9,455</u>	<u>466,407</u>
Total liabilities and net assets	<u>\$ 568,383</u>	<u>\$ 25,259</u>	<u>\$ 593,642</u>

CLARK UNIVERSITY
Consolidating Statement of Activities
For the year ended May 31, 2016

	<u>Clark University Unrestricted</u>	<u>Jonas Realty Corporation Unrestricted</u>	<u>Total Unrestricted</u>
REVENUES AND OTHER SUPPORT			
Operating revenues			
Tuition and fees	\$ 125,857	\$ -	\$ 125,857
Financial aid discount	(59,360)	-	(59,360)
Net tuition and fees	66,497	-	66,497
Auxiliary services	15,138	-	15,138
Contributions	2,547	-	2,547
Income appropriated under spending policy	13,850	-	13,850
Grants and contracts	5,045	-	5,045
Federal student financial aid	1,046	-	1,046
Other investment return	(2)	-	(2)
Other income	2,284	-	2,284
Net assets released from restrictions	4,060	-	4,060
Total operating revenues and other support	<u>110,465</u>	<u>-</u>	<u>110,465</u>
EXPENSES			
Operating expenses			
Instruction	43,382	-	43,382
Student services	12,704	-	12,704
Academic support	15,284	-	15,284
General institutional	10,050	15	10,065
Alumni and development	4,663	-	4,663
Research	7,566	-	7,566
Auxiliary services	13,051	-	13,051
Total operating expenses	<u>106,700</u>	<u>15</u>	<u>106,715</u>
Change in net assets from operations	<u>3,765</u>	<u>(15)</u>	<u>3,750</u>
NON-OPERATING ACTIVITY			
Investment income (loss) net of amounts appropriated under spending policy	(5,987)	-	(5,987)
Contributions	61	-	61
Change in value of interest rate swap	(448)	-	(448)
Deficiencies in historical values	(114)	-	(114)
Change in value of beneficial interests in outside trusts	-	-	-
Annuity and unitrust obligation expense	(37)	-	(37)
Other non-operating charges, net	(9,440)	9,470	30
Net assets released from restrictions	1,531	-	1,531
Total non-operating revenue (expense)	<u>(14,434)</u>	<u>9,470</u>	<u>(4,964)</u>
Change in net assets	<u>(10,669)</u>	<u>9,455</u>	<u>(1,214)</u>
Net assets - beginning of year	<u>134,637</u>	<u>-</u>	<u>134,637</u>
Net assets - end of year	<u>\$ 123,968</u>	<u>\$ 9,455</u>	<u>\$ 133,423</u>