

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

CLARK UNIVERSITY

May 31, 2018 and 2017

CLARK UNIVERSITY

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Clark University

Report on the financial statements

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, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements. Management’s responsibility for the 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 University’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 University’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 financial position of Clark University and subsidiary as of May 31, 2018 and 2017, and the changes in their net assets 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 schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is 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 consolidated 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.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 21, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Westborough, Massachusetts
September 21, 2018

CLARK UNIVERSITY
Consolidated Statements of Financial Position
May 31, 2018 and 2017
(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 48,081	\$ 55,929
Funds held by trustees (Note 4)	1,014	947
Interest and dividends receivable	35	84
Grants and contracts receivable	1,018	925
Student accounts receivable, net of allowance for doubtful accounts of \$326 and \$403 in 2018 and 2017, respectively	93	142
Other accounts receivable	577	1,678
Loans receivable (Note 3)	6,701	6,651
Prepaid expenses and other assets	821	1,080
Contributions receivable, net (Note 5)	4,727	2,282
Student loans receivable, net (Note 6)	5,537	5,908
Beneficial interests in outside trusts	1,474	1,488
Investments, at fair value (Note 7)	451,099	410,534
Land, buildings, equipment, and construction in progress- net of accumulated depreciation (Note 9)	132,517	135,737
Interest rate swap, at fair value (Note 11)	<u>364</u>	<u>-</u>
Total assets	<u>\$ 654,058</u>	<u>\$ 623,385</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 13,762	\$ 12,550
Advance payments under grants	1,980	1,815
Other liabilities	2,999	3,580
Deposits and deferred revenue	8,506	8,725
Notes payable (Note 10)	9,529	9,591
Interest rate swap, at fair value (Note 11)	-	160
Bonds payable (Note 11)	66,122	69,208
Liability for split-interest agreements	6,734	6,856
Federal loan program advances	<u>5,326</u>	<u>5,343</u>
Total liabilities	<u>114,958</u>	<u>117,828</u>
NET ASSETS (Note 13)		
Unrestricted	142,599	138,911
Temporarily restricted	245,305	225,824
Permanently restricted	<u>151,196</u>	<u>140,822</u>
Total net assets	<u>539,100</u>	<u>505,557</u>
Total liabilities and net assets	<u>\$ 654,058</u>	<u>\$ 623,385</u>

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

CLARK UNIVERSITY
Consolidated Statements of Activities
For the year ended May 31, 2018
(With summarized comparative financial information for the year ended May 31, 2017)
(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
REVENUES AND OTHER SUPPORT					
Operating revenues					
Tuition and fees	\$ 124,459	\$ -	\$ -	\$ 124,459	\$ 121,657
Financial aid discount	(60,607)	-	-	(60,607)	(58,173)
Net tuition and fees	63,852	-	-	63,852	63,484
Auxiliary services	14,688	-	-	14,688	14,928
Contributions	2,423	4,583	-	7,006	4,809
Income appropriated under spending policy	15,397	3,538	-	18,935	18,140
Grants and contracts	5,841	-	-	5,841	5,766
Federal student financial aid	1,056	-	-	1,056	1,046
Other investment return	-	3	-	3	(40)
Other income	2,671	78	-	2,749	2,554
Net assets released from restrictions	4,295	(4,295)	-	-	-
Total operating revenues and other support	<u>110,223</u>	<u>3,907</u>	<u>-</u>	<u>114,130</u>	<u>110,687</u>
EXPENSES (Note 15)					
Operating expenses					
Instruction	43,618	-	-	43,618	43,274
Student services	14,025	-	-	14,025	13,308
Academic support	15,667	-	-	15,667	14,887
General institutional	11,005	-	-	11,005	10,409
Alumni and development	5,407	-	-	5,407	5,324
Research	7,853	-	-	7,853	7,529
Auxiliary services	13,132	-	-	13,132	12,981
Total operating expenses	<u>110,707</u>	<u>-</u>	<u>-</u>	<u>110,707</u>	<u>107,712</u>
Change in net assets from operations	<u>(484)</u>	<u>3,907</u>	<u>-</u>	<u>3,423</u>	<u>2,975</u>
NON-OPERATING ACTIVITY					
Investment income (loss) net of amounts					
appropriated under spending policy	2,952	15,892	932	19,776	33,974
Contributions	257	162	9,806	10,225	2,136
Income appropriated under spending policy	-	-	257	257	251
Change in value of interest rate swap	524	-	-	524	444
Deficiencies in historical values	(62)	62	-	-	-
Change in value of beneficial interests in outside trusts (Note 7)	-	2	139	141	186
Change in value of split interest obligation	(60)	(16)	(686)	(762)	(1,018)
Other non-operating charges, net	33	-	(74)	(41)	202
Net assets released from restrictions	528	(528)	-	-	-
Total non-operating revenue (expense)	<u>4,172</u>	<u>15,574</u>	<u>10,374</u>	<u>30,120</u>	<u>36,175</u>
Change in net assets	3,688	19,481	10,374	33,543	39,150
Net assets - beginning of year	<u>138,911</u>	<u>225,824</u>	<u>140,822</u>	<u>505,557</u>	<u>466,407</u>
Net assets - end of year	<u>\$ 142,599</u>	<u>\$ 245,305</u>	<u>\$ 151,196</u>	<u>\$ 539,100</u>	<u>\$ 505,557</u>

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

CLARK UNIVERSITY
Consolidated Statements of Activities
For the year ended May 31, 2017
(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>
REVENUES AND OTHER SUPPORT				
Operating revenues				
Tuition and fees	\$ 121,657	\$ -	\$ -	\$ 121,657
Financial aid discount	(58,173)	-	-	(58,173)
Net tuition and fees	63,484	-	-	63,484
Auxiliary services	14,928	-	-	14,928
Contributions	3,794	1,015	-	4,809
Income appropriated under spending policy	14,720	3,420	-	18,140
Grants and contracts	5,766	-	-	5,766
Federal student financial aid	1,046	-	-	1,046
Other investment return	(44)	4	-	(40)
Other income	2,554	-	-	2,554
Net assets released from restrictions	4,554	(4,554)	-	-
Total operating revenues and other support	<u>110,802</u>	<u>(115)</u>	<u>-</u>	<u>110,687</u>
EXPENSES (Note 15)				
Operating expenses				
Instruction	43,274	-	-	43,274
Student services	13,308	-	-	13,308
Academic support	14,887	-	-	14,887
General institutional	10,409	-	-	10,409
Alumni and development	5,324	-	-	5,324
Research	7,529	-	-	7,529
Auxiliary services	12,981	-	-	12,981
Total operating expenses	<u>107,712</u>	<u>-</u>	<u>-</u>	<u>107,712</u>
Change in net assets from operations	<u>3,090</u>	<u>(115)</u>	<u>-</u>	<u>2,975</u>
NON-OPERATING ACTIVITY				
Investment income (loss) net of amounts appropriated under spending policy	4,687	27,423	1,864	33,974
Contributions	25	199	1,912	2,136
Income appropriated under spending policy	-	-	251	251
Change in value of interest rate swap	444	-	-	444
Deficiencies in historical values	107	(107)	-	-
Change in value of beneficial interests in outside trusts (Note 7)	-	19	167	186
Change in value of split interest obligation	(87)	(19)	(912)	(1,018)
Other non-operating charges, net	300	-	(98)	202
Net assets released from restrictions	1,004	(1,004)	-	-
Total non-operating revenue (expense)	<u>6,480</u>	<u>26,511</u>	<u>3,184</u>	<u>36,175</u>
Change in net assets	<u>9,570</u>	<u>26,396</u>	<u>3,184</u>	<u>39,150</u>
Net assets - beginning of year	<u>129,341</u>	<u>199,428</u>	<u>137,638</u>	<u>466,407</u>
Net assets - end of year	<u>\$ 138,911</u>	<u>\$ 225,824</u>	<u>\$ 140,822</u>	<u>\$ 505,557</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, 2018 and 2017
(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 33,543	\$ 39,150
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	9,116	8,590
Amortization of bond issuance costs and bond premium/discount	(17)	(10)
Bad debt expense	83	107
Change in value of interest rate agreement	(524)	-
Contributions restricted for long-term purposes	(9,724)	(2,134)
Interest and dividends restricted for long-term purposes - net	(1,009)	(1,076)
Donated assets (non-cash) contributions and payments	(364)	(51)
Realized and unrealized investment gains	(38,323)	(51,668)
Loss on disposal of land, buildings and equipment	5	62
Changes in assets and liabilities		
Accounts receivable and interest and dividends receivable	1,135	(816)
Prepaid expenses and other assets	259	(240)
Contributions receivable	(2,491)	1,160
Grants and contracts receivable	(93)	160
Beneficial interests in outside trusts	14	(186)
Accounts payable and accrued expenses	1,211	(5,839)
Other liabilities	(581)	239
Annuities and unitrust obligations	(122)	42
Deposits and deferred revenue	(219)	193
Interest rate swap	-	(444)
Advance payments under grants	165	620
Net cash used in operating activities	<u>(7,936)</u>	<u>(12,141)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable, net	399	(50)
Purchase of land, buildings, equipment and construction in progress	(5,901)	(8,165)
Proceeds from sales of investments	46,537	58,169
Purchases of investments	(39,816)	(22,928)
Interest and dividends restricted for long-term purposes - net	1,009	1,076
Net change in funds held by trustees	<u>(67)</u>	<u>3,531</u>
Net cash provided by investing activities	<u>2,161</u>	<u>31,633</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	9,724	2,134
Decrease in federal loan program advances	(17)	(53)
Principal payments on bonds payable	(3,031)	(3,225)
Issuance (payments) of notes payable	(100)	(100)
Donated assets (non-cash) contributions and payments	(8,599)	(1,716)
Issuance of loan receivable	<u>(50)</u>	<u>-</u>
Net cash used in financing activities	<u>(2,073)</u>	<u>(2,960)</u>
Net change in cash and cash equivalents	(7,848)	16,532
Cash and cash equivalents - beginning of year	<u>55,929</u>	<u>39,397</u>
Cash and cash equivalents - end of year	<u>\$ 48,081</u>	<u>\$ 55,929</u>
Supplemental disclosures:		
Cash paid for interest	\$ 1,555	\$ 1,877
Capital lease obligations incurred to acquire assets	-	363
Additions to land, buildings, equipment and construction in progress remaining in accounts payable and accrued expense at year-end.	574	225

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

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2018 and 2017
(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 3,100 full and part-time students drawn from 48 states and 85 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 Shaich Family 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.

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. Unrestricted net assets generally result from contributions or other inflows of assets whose use by the University is not

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2018 and 2017
(in thousands of dollars)

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, 2018 and 2017
(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 some 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

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2018 and 2017
(in thousands of dollars)

for these assets approximate fair value). The fair value of publicly traded securities is based upon quoted 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 & Gym
Media & Network Equipment	5 years
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, as well as 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.

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2018 and 2017
(in thousands of dollars)

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 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 \$1,069 and \$1,079 for these activities as of May 31, 2018 and 2017, respectively. 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, 2018 and 2017, the University had deferred revenue of \$6,164 and \$6,650, 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.

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May 31, 2018 and 2017
(in thousands of dollars)

Financial Aid Discount

The University's financial aid is reported in the Statements of Activities as an adjustment to revenues. The financial aid program is funded through endowment income, gifts and grants, and institutional resources.

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 \$15,449 and \$15,792 for the years ended May 31, 2018 and 2017, respectively. Federal Pell Grants and Direct Student Loans in the amount of \$13,874 and \$13,920 for the years ended May 31, 2018 and 2017, respectively, are pass-through funding to students and are not presented in the Statements of Activities. State aid totaled \$601 and \$650 for the years ended May 31, 2018 and 2017, 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 Shaich Family Alumni and Student Engagement Center (the "Project"), a building located at 939 Main Street in Worcester, primarily for classroom, meeting 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 \$13,913 from the University to fund property purchases, construction costs and transaction financing costs for the Shaich Family 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 years ended May 31, 2018 and 2017 was \$73 and \$61, respectively. Interest income related to the loan receivable for the years ended May 31, 2018 and 2017 was \$67 in both years.

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, 2018 and 2017, the University had debt service fund collateral and debt reserve funds totaling \$1,014 and \$947, respectively.

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5. CONTRIBUTIONS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Endowment for academic purposes	\$ 81	\$ 85
Endowment for scholarships	765	51
Endowment for other programs	4	6
Nonendowment for academic purposes	276	470
Nonendowment for facilities	868	1,397
Nonendowment for other programs	3,249	201
Nonendowment for scholarships	60	130
Unrestricted	<u>189</u>	<u>245</u>
Total contributions receivable	<u>\$ 5,492</u>	<u>\$ 2,585</u>

Contributions are expected to be realized in the following periods:

	<u>2018</u>	<u>2017</u>
In less than one year	\$ 2,465	\$ 1,870
Between one year and five years	<u>3,027</u>	<u>715</u>
Total contributions receivable	<u>5,492</u>	<u>2,585</u>
Less:		
Present value discount (discount rates range from 4.11% to 10.31%) and allowance for unfulfilled pledges	<u>(765)</u>	<u>(303)</u>
Contributions receivable, net	<u>\$ 4,727</u>	<u>\$ 2,282</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, 2018 and 2017.

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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 both May 31, 2018 and 2017, student loans represented 0.8 and 0.9% of total assets, respectively.

At May 31 student loans consisted of the following:

	<u>2018</u>	<u>2017</u>
Federal Perkins Loan Program	\$ 5,583	\$ 5,982
University Loan Program	<u>359</u>	<u>359</u>
Total student loans receivable	<u>5,942</u>	<u>6,341</u>
Less allowance for doubtful loans		
Beginning of year	(433)	(412)
Decrease/(increase)	28	(21)
End of year allowance for doubtful loans	<u>(405)</u>	<u>(433)</u>
Student loans receivable, net	<u>\$ 5,537</u>	<u>\$ 5,908</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 \$5,537 and \$5,343 at May 31, 2018 and 2017, 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, 2018 and 2017, 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>
2018	<u>\$ 104</u>	<u>\$ 105</u>	<u>\$ 890</u>	<u>\$ 1,099</u>
2017	<u>\$ 134</u>	<u>\$ 45</u>	<u>\$ 890</u>	<u>\$ 1,069</u>

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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.

7. INVESTMENTS

As of May 31 investments consisted of the following:

	<u>2018</u>	<u>2017</u>
Marketable securities		
Fixed income		
Money market mutual funds	\$ 9,425	\$ 4,629
Corporate bonds	26,035	-
Government bonds	61	61
Equity securities	60,562	52,176
Partnerships		
Private equity/venture capital	18,348	13,686
Private equity international	3,183	3,940
Real assets	23,920	25,035
Absolute return/hedge funds	188,839	180,818
Debt funds	-	22,359
International equity mutual funds	104,083	94,586
Other	127	126
Real estate, life insurance, notes receivable	360	354
Other	5,601	2,276
Beneficial interest in trusts	<u>10,555</u>	<u>10,488</u>
 Total investments	 <u>\$ 451,099</u>	 <u>\$ 410,534</u>

Beneficial interest in trusts as of May 31, 2018 is comprised of marketable investments of \$323 in money market mutual funds, \$7,844 in equity mutual funds, \$1,966 in bonds, and \$422 in publicly traded real estate investment trusts (REIT's). Beneficial interest in trusts as of May 31, 2017 was comprised of marketable investments of \$480 in money market mutual funds, \$7,958 in equity mutual funds, \$1,726 in bonds, and \$324 in publicly traded real estate investment trusts (REIT's).

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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 \$272 and \$235 for the years ended May 31, 2018 and 2017, respectively.

	<u>2018</u>	<u>2017</u>
Net realized and unrealized gain (loss)	\$ 38,323	\$ 51,668
Interest and dividends, net	407	656
Split-interest agreement annuity payments, change in annuities and unitrusts payable, and related expenses, net	<u>(380)</u>	<u>(831)</u>
Total investment return	<u>\$ 38,350</u>	<u>\$ 51,493</u>

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

	<u>2018</u>	<u>2017</u>
Income appropriated under spending policy	\$ 19,193	\$ 18,391
Investment income net of amounts appropriated under spending policy	19,776	33,974
Other investment return	3	(40)
Change in value of beneficial interests in outside trusts	141	186
Change in value of split interest obligation	<u>(763)</u>	<u>(1,018)</u>
Total investment return	<u>\$ 38,350</u>	<u>\$ 51,493</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.

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.

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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.

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(s) in which the promised fund(s) are 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 and interests in private partnerships that are not redeemable at the measurement date are measured at net asset value ("NAV").

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 as reported by the relevant Trustee(s). 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.

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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 agreement(s) is estimated through the use of pricing models which reflect the contractual terms of the swap(s) 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.

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, 2018 and 2017 by level within the fair value hierarchy.

	May 31, 2018				Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at NAV	
Assets					
Marketable securities					
Money market mutual funds	\$ 9,425	\$ -	\$ -	\$ -	\$ 9,425
Corporate bonds	26,035	-	-	-	26,035
Government bonds	61	-	-	-	61
Equity securities	60,562	-	-	-	60,562
Partnerships measured at net asset value	-	-	-	338,500	338,500
Other measured at net asset value	-	-	-	5,601	5,601
Beneficial interest in trusts	10,555	-	-	-	10,555
Beneficial interests in outside trusts	-	-	1,474	-	1,474
Interest rate swap agreement	-	-	364	-	364
Total	<u>\$ 106,638</u>	<u>\$ -</u>	<u>\$ 1,838</u>	<u>\$ 344,101</u>	<u>\$ 452,577</u>

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	May 31, 2017				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at NAV	Total
Assets					
Marketable securities					
Money market mutual funds	\$ 4,629	\$ -	\$ -	\$ -	\$ 4,629
Government bonds	61	-	-	-	61
Equity securities	52,176	-	-	-	52,176
Partnerships measured at net asset value	-	-	-	340,550	340,550
Other measured at net asset value	-	-	-	2,276	2,276
Beneficial interest in trusts	10,488	-	-	-	10,488
Beneficial interests in outside trusts	-	-	1,488	-	1,488
	<u>67,354</u>	<u>-</u>	<u>1,488</u>	<u>342,826</u>	<u>411,668</u>
Liabilities					
Interest rate swap agreement	\$ -	\$ -	\$ 160	\$ -	\$ 160
	<u>-</u>	<u>-</u>	<u>160</u>	<u>-</u>	<u>160</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, 2018:

	Beginning Balance at June 1, 2017	Realized/ Unrealized Losses	Net Purchases (Redemptions)	Ending Balance at May 31, 2018
Beneficial interests in outside trusts	\$ 1,488	\$ (14)	\$ -	\$ 1,474
Total	<u>1,488</u>	<u>(14)</u>	<u>-</u>	<u>1,474</u>

There were no transfers between levels during the years ended May 31, 2018 and 2017.

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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, 2017:

	Beginning Balance at June 1, 2016	Realized/ Unrealized Gains	Net Purchases (Redemptions)	Ending Balance at May 31, 2017
Beneficial interests in outside trusts	\$ 1,302	\$ 186	\$ -	\$ 1,488
Total	<u>\$ 1,302</u>	<u>\$ 186</u>	<u>\$ -</u>	<u>\$ 1,488</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, 2018.

Investments	Fair Value	Commitments	Frequency	Notice Period
Partnership-Other	\$ 127	\$ -	quarterly	90 days notice (1)
Private equity/Venture Capital	11,102	1,559	temporarily illiquid	n/a
Private equity/Venture Capital	7,246	26,955	illiquid	(1)
Private equity/International	3,183	661	temporarily illiquid	(1)
Real assets	20,266	5,140	temporarily illiquid	(1)
Real assets	1,259	-	annually	90 days notice
Real assets	2,395	10,502	illiquid	n/a
Absolute Return/Hedge	188,839	-	monthly	45-90 days notice
International equity mutual funds	104,083	-	daily, monthly	6-40 days notice
Other	<u>5,601</u>	<u>-</u>	temporarily illiquid	(1)
Total	<u>\$ 344,101</u>	<u>\$ 44,817</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:

	<u>2018</u>	<u>2017</u>
Land	\$ 9,949	\$ 9,949
Land improvements and infrastructure	19,361	19,361
Buildings	120,739	120,670
Building improvements	96,450	92,223
Furniture, fixtures, and equipment	11,397	11,729
Assets under capital lease	1,356	1,356
Internal use software	568	547
Leasehold improvements	<u>69</u>	<u>69</u>
Total	259,889	255,904
Less: accumulated depreciation	(128,626)	(122,239)
Construction in progress	<u>1,254</u>	<u>2,072</u>
Land, buildings and equipment, net	<u>\$ 132,517</u>	<u>\$ 135,737</u>

The FY18 figures above include activity residing in JRC. Specifically, \$3,142 of land, \$2,165 of land improvements and \$17,186 of buildings are attributable to JRC.

The University has entered into contracts for various construction projects on campus. The total obligation for these contracts is \$1,274, of which \$409 had been expended at May 31, 2018.

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 \$0 and \$100 on May 31, 2018 and 2017, respectively.

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 Shaich Family Alumni and Student Engagement Center in the amount of \$9,700. See Footnote 3 for details.

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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 \$1,356 for both May 31, 2018 and 2017 with related accumulated amortization of \$1,011 and \$786, as of May 31, 2018 and 2017, respectively.

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

<u>Year Ending May 31,</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
2019	\$ 178	\$ 68	\$ 246
2020	172	70	242
2021	50	72	122
2022	11	61	72
2023	11	-	11
2024 and beyond	<u>2,729</u>	<u>-</u>	<u>2,729</u>
Total minimum lease payments	<u>\$ 3,151</u>	271	<u>\$ 3,422</u>
Less: amount representing interest above		<u>(19)</u>	
Capital lease obligation		<u>\$ 252</u>	

Lease expense for 2018 and 2017 was \$184 and \$224, 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 consisted of the following:

	<u>2018</u>	<u>2017</u>
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 (1.02% on May 31, 2018) are due in varying installments, plus interest, with final maturity in 2036.	\$ 36,585	\$ 37,965
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 4.00% 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 \$1,035 to \$1,550.	13,855	14,810
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 \$710 to \$1,085.	<u>15,935</u>	<u>16,630</u>
Total outstanding bonds	66,375	69,405
Unamortized original issue premium	238	330
Unamortized financing issue costs	<u>(491)</u>	<u>(527)</u>
Total bonds payable	<u>\$ 66,122</u>	<u>\$ 69,208</u>

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Principal payments related to the above indebtedness due in future fiscal years are as follows as of May 31, 2018:

2019	\$	3,145
2020		3,260
2021		3,380
2022		3,530
2023		3,670
Thereafter		<u>49,390</u>
	\$	<u>66,375</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, 2018 was 1.90701% resulting in an effective rate of 1.430258%. 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 \$524 in 2018 and \$444 in 2017, 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, 2018, the University was in compliance with the financial covenants.

Interest expense on bonds payable was \$1,481 and \$1,457 for 2018 and 2017, 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, 2018 or 2017. The line of credit will expire on March 31, 2019.

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13. COMPONENTS OF NET ASSETS

The components of net assets at May 31 are as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted net assets		
Undesignated funds	\$ 77,662	\$ 76,770
Board designated funds	<u>64,937</u>	<u>62,141</u>
Total unrestricted net assets	<u>142,599</u>	<u>138,911</u>
Temporarily restricted net assets		
Endowment investment gains	231,251	215,324
Pledges and life insurance policies for nonendowment purposes	4,290	2,433
Unspent endowment income restricted as to purpose	5,076	4,642
Unspent gifts restricted as to purpose	4,458	3,213
Trust agreements neither for unrestricted nor endowed purposes	<u>230</u>	<u>212</u>
Total temporarily restricted net assets	<u>245,305</u>	<u>225,824</u>
Permanently restricted net assets		
Endowed funds	140,681	131,344
Pledges and life insurance policies for endowment purposes	875	279
Trust agreements with endowed purposes	8,948	8,532
Donor-restricted loan funds	<u>692</u>	<u>667</u>
Total permanently restricted net assets	<u>151,196</u>	<u>140,822</u>
Total net assets	<u>\$ 539,100</u>	<u>\$ 505,557</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 agreements with the donors, available to the University to meet financial obligations in the event no other sources are available. At May 31, 2018, endowed funds with a fair value of \$104,166 representing \$53,062 of gains in temporarily restricted net assets and \$51,104 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.

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14. ENDOWMENTS

The University's endowment consists of 575 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 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). The University outsources management to a variety of managers with differing strategies. The Investment Committee of the Board is responsible for setting asset allocation policy and selecting and overseeing the managers.

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

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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 20% or less. 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 30% or less. 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, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 229,605	\$ 140,681	\$ 370,286
Board-designated funds	<u>64,937</u>	<u>1,646</u>	<u>-</u>	<u>66,583</u>
Total funds	<u>\$ 64,937</u>	<u>\$ 231,251</u>	<u>\$ 140,681</u>	<u>\$ 436,869</u>

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Changes in endowment net assets for the fiscal year ended May 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 62,141	\$ 215,324	\$ 131,344	\$ 408,809
Investment return:				
Investment income	-	363	-	363
Net appreciation (realized and unrealized)	<u>5,438</u>	<u>32,022</u>	<u>-</u>	<u>37,460</u>
Total investment return	<u>5,438</u>	<u>32,385</u>	<u>-</u>	<u>37,823</u>
Contributions and other additions	-	87	9,337	9,424
Appropriations of endowment assets for expenditure (draw)	(2,585)	(16,607)	-	(19,192)
Other changes:				
Deficiencies in historical values	(62)	62	-	-
Transfer to Board-designated endowment funds	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>
Total other changes	<u>(57)</u>	<u>62</u>	<u>-</u>	<u>5</u>
Endowment net assets, end of year	<u>\$ 64,937</u>	<u>\$ 231,251</u>	<u>\$ 140,681</u>	<u>\$ 436,869</u>

Endowment net asset composition by type of fund as of May 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 213,814	\$ 131,344	\$ 345,158
Board-designated funds	<u>62,141</u>	<u>1,510</u>	<u>-</u>	<u>63,651</u>
Total funds	<u>\$ 62,141</u>	<u>\$ 215,324</u>	<u>\$ 131,344</u>	<u>\$ 408,809</u>

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Changes in endowment net assets for the fiscal year ended May 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 52,396	\$ 188,030	\$ 128,653	\$ 369,079
Investment return:				
Investment income	141	798	-	939
Net appreciation (realized and unrealized)	<u>7,000</u>	<u>42,381</u>	<u>-</u>	<u>49,381</u>
Total investment return	<u>7,141</u>	<u>43,179</u>	<u>-</u>	<u>50,320</u>
Contributions and other additions	-	-	2,691	2,691
Appropriations of endowment assets for expenditure (draw)	(2,612)	(15,778)	-	(18,390)
Other changes:				
Deficiencies in historical values	107	(107)	-	-
Transfer to Board-designated endowment funds	<u>5,109</u>	<u>-</u>	<u>-</u>	<u>5,109</u>
Total other changes	<u>5,216</u>	<u>(107)</u>	<u>-</u>	<u>5,109</u>
Endowment net assets, end of year	<u>\$ 62,141</u>	<u>\$ 215,324</u>	<u>\$ 131,344</u>	<u>\$ 408,809</u>

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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 are as follows:

	<u>2018</u>	<u>2017</u>
Instruction	\$ 39,951	\$ 39,557
Student services	11,282	10,814
Academic support	13,281	12,404
General institutional	8,076	7,647
Alumni and development	5,275	5,023
Operation and maintenance	5,989	5,943
Research	5,487	5,466
Auxiliary services	10,569	10,621
Interest and fees	1,681	1,647
Depreciation	<u>9,116</u>	<u>8,590</u>
Total	<u>\$ 110,707</u>	<u>\$ 107,712</u>

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 \$4,020 in 2018 and \$3,970 in 2017.

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 2018 and 2017 totaled \$22 and \$17, respectively. As of May 31, 2018 and 2017, the University had accrued \$1,014 and \$972, 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 \$7,674 and \$7,390 as of May 31, 2018 and 2017, respectively. The University first invested with this firm well prior to his joining the board.

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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, 2018 and through September 21, 2018, 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
May 31, 2018
(in thousands)

	<u>Clark University</u>	<u>Jonas Realty Corporation</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 47,993	\$ 88	\$ -	\$ 48,081
Due to/ due from related party	9	(9)	-	-
Funds held by trustees	1,014	-	-	1,014
Interest and dividends receivable	35	-	-	35
Grants and contracts receivable	1,018	-	-	1,018
Student accounts receivable, net of allowance for doubtful accounts of \$326 and \$403 in 2018 and 2017, respectively	93	-	-	93
Other accounts receivable	577	368	(368)	577
Loan receivable	6,701	-	-	6,701
Prepaid expenses and other assets	821	-	-	821
Contributions receivable - net	4,727	-	-	4,727
Student loans receivable - net	5,537	-	-	5,537
Beneficial interests in outside trusts	1,474	-	-	1,474
Investments, at fair value	451,099	-	-	451,099
Land, buildings, equipment, and construction in progress- net of accumulated depreciation	110,024	22,493	-	132,517
Interest rate swap, at fair value (Note 11)	364	-	-	364
Total assets	<u>\$ 631,486</u>	<u>\$ 22,940</u>	<u>\$ (368)</u>	<u>\$ 654,058</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	\$ 14,079	\$ 51	\$ (368)	\$ 13,762
Advance payments under grants	1,980	-	-	1,980
Other liabilities	2,999	-	-	2,999
Deposits and deferred revenue	8,506	-	-	8,506
Notes payable	-	9,529	-	9,529
Bonds payable	66,122	-	-	66,122
Liability for split-interest agreements	6,734	-	-	6,734
Federal loan program advances	5,326	-	-	5,326
Total liabilities	<u>105,746</u>	<u>9,580</u>	<u>(368)</u>	<u>114,958</u>
NET ASSETS				
Unrestricted	129,239	13,360	-	142,599
Temporarily restricted	245,305	-	-	245,305
Permanently restricted	151,196	-	-	151,196
Total net assets	<u>525,740</u>	<u>13,360</u>	<u>-</u>	<u>539,100</u>
Total liabilities and net assets	<u>\$ 631,486</u>	<u>\$ 22,940</u>	<u>\$ (368)</u>	<u>\$ 654,058</u>

CLARK UNIVERSITY
Consolidating Statement of Activities
For the year ended May 31, 2018
(in thousands)

	<u>Clark University</u> <u>Unrestricted</u>	<u>Jonas Realty Corp.</u> <u>Unrestricted</u>	<u>Eliminations</u>	<u>Total</u> <u>Unrestricted</u>
REVENUES AND OTHER SUPPORT				
Operating revenues				
Tuition and fees	\$ 124,459	\$ -	\$ -	\$ 124,459
Financial aid discount	(60,607)	-	-	(60,607)
Net tuition and fees	63,852	-	-	63,852
Auxiliary services	14,688	-	-	14,688
Contributions	2,423	-	-	2,423
Income appropriated under spending policy	15,397	-	-	15,397
Grants and contracts	5,841	-	-	5,841
Federal student financial aid	1,056	-	-	1,056
Other investment return	-	-	-	-
Other income	2,671	373	(373)	2,671
Net assets released from restriction	4,295	-	-	4,295
Total operating revenues and other support	<u>110,223</u>	<u>373</u>	<u>(373)</u>	<u>110,223</u>
EXPENSES				
Operating expenses				
Instruction	42,649	-	28	42,677
Student services	13,963	-	62	14,025
Academic support	16,546	-	55	16,601
General institutional	10,817	42	153	11,012
Alumni and development	5,407	-	-	5,407
Research	7,853	-	-	7,853
Auxiliary services	13,111	-	21	13,132
Allocated depreciation/interest/fees	-	692	(692)	-
Total operating expenses	<u>110,346</u>	<u>734</u>	<u>(373)</u>	<u>110,707</u>
Change in net assets from operations	<u>(123)</u>	<u>(361)</u>	<u>-</u>	<u>(484)</u>
NON-OPERATING ACTIVITY				
Investment income (loss) net of amounts appropriated under spending policy	2,952	-	-	2,952
Contributions	257	-	-	257
Change in value of interest rate swap	524	-	-	524
Deficiencies in historical values	(62)	-	-	(62)
Change in value of beneficial interests in outside trusts	-	-	-	-
Change in the value of split interest agreements	(60)	-	-	(60)
Other non-operating charges, net	(47)	80	-	33
Net assets released from restrictions	528	-	-	528
Total non-operating revenue (expense)	<u>4,092</u>	<u>80</u>	<u>-</u>	<u>4,172</u>
Change in net assets	3,969	(281)	-	3,688
Net assets - beginning of year	138,911	-	-	138,911
Net assets - end of year	<u>\$ 142,880</u>	<u>\$ (281)</u>	<u>\$ -</u>	<u>\$ 142,599</u>