

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

CLARK UNIVERSITY

May 31, 2019 and 2018

CLARK UNIVERSITY

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Clark University

We have audited the accompanying consolidated financial statements of Clark University and subsidiary (the "University"), which comprise the consolidated Statement of position as of May 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 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, 2019 and 2018, and the results of their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
September 24, 2019

CLARK UNIVERSITY
Consolidated Statements of Financial Position
May 31, 2019 and 2018
(in thousands of dollars)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 30,644	\$ 48,081
Funds held by trustees (Note 4)	1,062	1,014
Interest and dividends receivable	107	35
Grants and contracts receivable	1,233	1,018
Student accounts receivable, net of allowance for doubtful accounts of \$392 and \$326 in 2019 and 2018, respectively	214	93
Other accounts receivable	1,019	577
Loans receivable (Note 12)	6,741	6,701
Prepaid expenses and other assets	1,493	821
Contributions receivable, net (Note 5)	3,862	4,727
Student loans receivable, net (Note 6)	4,621	5,537
Beneficial interests in outside trusts	1,492	1,474
Investments, at fair value (Note 7)	454,009	451,099
Land, buildings, equipment, and construction in progress - net of accumulated depreciation (Note 9)	131,414	132,517
Interest rate swap, at fair value (Note 11)	-	364
Total assets	<u>\$ 637,911</u>	<u>\$ 654,058</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 13,533	\$ 13,762
Advance payments under grants	3,329	1,980
Other liabilities	3,350	2,999
Deposits and deferred revenue	8,350	8,506
Notes payable (Note 10)	9,568	9,529
Interest rate swap, at fair value (Note 11)	194	-
Bonds payable (Note 11)	62,933	66,122
Liability for split-interest agreements	6,292	6,734
Federal loan program advances	5,422	5,326
Total liabilities	<u>112,971</u>	<u>114,958</u>
NET ASSETS (Note 14)		
Without donor restriction	145,480	142,669
With donor restriction		
Time and purpose	228,048	245,305
Perpetual	151,979	151,196
Underwater endowment	<u>(567)</u>	<u>(70)</u>
Total net assets	<u>524,940</u>	<u>539,100</u>
Total liabilities and net assets	<u>\$ 637,911</u>	<u>\$ 654,058</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, 2019
(With summarized comparative financial information for the year ended May 31, 2018)
(in thousands of dollars)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
REVENUES AND OTHER SUPPORT				
Operating revenues				
Tuition and fees	\$ 132,292	\$ -	\$ 132,292	\$ 124,459
Financial aid discount	<u>(66,440)</u>	<u>-</u>	<u>(66,440)</u>	<u>(60,607)</u>
Net tuition and fees	65,852	-	65,852	63,852
Auxiliary services	15,593	-	15,593	14,688
Contributions	4,637	2,380	7,017	7,006
Income appropriated under spending policy	16,349	3,696	20,045	18,901
Grants and contracts	6,808	-	6,808	5,841
Federal student financial aid	1,046	-	1,046	1,056
Other investment return	93	15	108	3
Other income	3,699	2	3,701	2,749
Net assets released from restrictions	<u>4,801</u>	<u>(4,801)</u>	<u>-</u>	<u>-</u>
Total operating revenues and other support	<u>118,878</u>	<u>1,292</u>	<u>120,170</u>	<u>114,096</u>
EXPENSES				
Operating expenses				
Instruction	43,796	-	43,796	43,618
Student services	14,953	-	14,953	14,025
Academic support	17,043	-	17,043	15,667
General institutional	12,176	-	12,176	11,005
Alumni and development	4,904	-	4,904	5,407
Research	8,205	-	8,205	7,853
Auxiliary services	<u>13,649</u>	<u>-</u>	<u>13,649</u>	<u>13,132</u>
Total operating expenses	<u>114,726</u>	<u>-</u>	<u>114,726</u>	<u>110,707</u>
Change in net assets from operations	<u>4,152</u>	<u>1,292</u>	<u>5,444</u>	<u>3,389</u>
NON-OPERATING ACTIVITY				
Investment income (loss) net of amounts appropriated under spending policy	(3,093)	(17,770)	(20,863)	19,776
Contributions	96	1,226	1,322	10,225
Income appropriated under spending policy	-	232	232	257
Change in value of interest rate swap	(558)	-	(558)	524
Change in value of beneficial interests in outside trusts (Note 7)	-	29	29	141
Annuity and unitrust obligation recovery (expense)	(78)	(367)	(445)	(728)
Other non-operating charges, net	635	44	679	(41)
Net assets released from restrictions	<u>1,657</u>	<u>(1,657)</u>	<u>-</u>	<u>-</u>
Total non-operating revenue (expense)	<u>(1,341)</u>	<u>(18,263)</u>	<u>(19,604)</u>	<u>30,154</u>
Change in net assets	2,811	(16,971)	(14,160)	33,543
Net assets - beginning of year	<u>142,669</u>	<u>396,431</u>	<u>539,100</u>	<u>505,557</u>
Net assets - end of year	<u>\$ 145,480</u>	<u>\$ 379,460</u>	<u>\$ 524,940</u>	<u>\$ 539,100</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
(in thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	2018 Total
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	4,583	7,006
Income appropriated under spending policy	15,369	3,532	18,901
Grants and contracts	5,841	-	5,841
Federal student financial aid	1,056	-	1,056
Other investment return	-	3	3
Other income	2,671	78	2,749
Net assets released from restrictions	4,295	(4,295)	-
Total operating revenues and other support	110,195	3,901	114,096
EXPENSES (Note 16)			
Operating expenses			
Instruction	43,618	-	43,618
Student services	14,025	-	14,025
Academic support	15,667	-	15,667
General institutional	11,005	-	11,005
Alumni and development	5,407	-	5,407
Research	7,853	-	7,853
Auxiliary services	13,132	-	13,132
Total operating expenses	110,707	-	110,707
Change in net assets from operations	(512)	3,901	3,389
NON-OPERATING ACTIVITY			
Investment income (loss) net of amounts appropriated under spending policy	2,952	16,824	19,776
Contributions	257	9,968	10,225
Income appropriated under spending policy	-	257	257
Change in value of interest rate swap	524	-	524
Change in value of beneficial interests in outside trusts (Note 7)	-	141	141
Annuity and unitrust obligation recovery (expense)	(32)	(696)	(728)
Other non-operating charges, net	41	(82)	(41)
Net assets released from restrictions	528	(528)	-
Total non-operating revenue (expense)	4,270	25,884	30,154
Change in net assets	3,758	29,785	33,543
Net assets - beginning of year	138,911	366,646	505,557
Net assets - end of year	\$ 142,669	\$ 396,431	\$ 539,100

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

CLARK UNIVERSITY
Consolidated Statements of Expenses
For the years ended May 31, 2019 and 2018
(in thousands of dollars)

Functional Expense	Instruction	Student services	Academic support	General institutional	Alumni and development	Auxiliary services	Research	Operating and maintenance	2019 Total	2018
Salary and wages	\$ 27,659	\$ 6,108	\$ 8,151	\$ 4,863	\$ 2,578	\$ 336	\$ 2,738	\$ 5,808	\$ 58,241	\$ 56,963
Employee benefits	6,660	1,712	2,400	1,008	762	95	615	1,619	14,871	14,094
Purchased services	3,014	1,741	1,737	2,311	164	5,327	1,011	384	15,688	15,025
Travel, conferences and meals	1,518	1,460	515	169	520	33	825	11	5,053	4,788
Utilities, maintenance & occupancy	247	131	14	263	60	567	12	2,606	3,900	3,674
Operating expense, equipment, supplies, library, and other related costs	1,097	1,028	1,909	575	687	240	676	165	6,376	5,583
Subtotal prior to allocation	40,195	12,180	14,726	9,189	4,771	6,598	5,877	10,593	104,129	100,127
Allocations										
Interest and fees	210	227	171	135	2	616	130		1,490	1,464
Depreciation	1,739	1,646	1,236	1,370	55	1,883	1,178		9,107	9,116
Operation and maintenance	1,652	900	910	1,482	76	4,552	1,020	(10,593)	-	-
Total	\$ 43,796	\$ 14,953	\$ 17,043	\$ 12,176	\$ 4,904	\$ 13,649	\$ 8,205	\$ -	\$ 114,726	\$ 110,707

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, 2019 and 2018
(in thousands of dollars)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (14,160)	\$ 33,543
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	9,107	9,116
Amortization of bond issuance costs and bond premium/discount	(6)	(17)
Bad debt expense	134	83
Change in value of interest rate agreement	558	(524)
Contributions restricted for long-term purposes	(1,321)	(9,724)
Interest and dividends restricted for long-term purposes - net	(874)	(1,009)
Donated assets (non-cash) contributions and payments	(2,053)	(364)
Realized and unrealized investment (gains) losses	1,140	(38,323)
Loss on disposal of land, buildings and equipment	127	5
Changes in assets and liabilities		
Accounts receivable and interest and dividends receivable	(789)	1,135
Prepaid expenses and other assets	(672)	259
Contributions receivable	842	(2,491)
Grants and contracts receivable	(215)	(93)
Beneficial interests in outside trusts	(18)	14
Accounts payable and accrued expenses	(228)	1,211
Other liabilities	351	(581)
Annuities and unitrust obligations	(442)	(122)
Deposits and deferred revenue	(156)	(219)
Advance payments under grants	1,349	165
Net cash used in operating activities	<u>(7,326)</u>	<u>(7,936)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable, net	959	399
Purchase of land, buildings, equipment and construction in progress	(8,131)	(5,901)
Proceeds from sales of investments	45,581	46,537
Purchases of investments	(47,292)	(39,816)
Interest and dividends restricted for long-term purposes - net	874	1,009
Net change in funds held by trustees	(48)	(67)
Net cash provided by (used in) investing activities	<u>(8,057)</u>	<u>2,161</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	1,321	9,724
Decrease in federal loan program advances	96	(17)
Principal payments on bonds payable	(3,145)	(3,031)
Issuance (payments) of notes payable	-	(100)
Donated assets (non-cash) contributions and payments	(286)	(8,599)
Issuance of loan receivable	(40)	(50)
Net cash provided by (used in) financing activities	<u>(2,054)</u>	<u>(2,073)</u>
Net change in cash and cash equivalents	(17,437)	(7,848)
Cash and cash equivalents - beginning of year	48,081	55,929
Cash and cash equivalents - end of year	<u>\$ 30,644</u>	<u>\$ 48,081</u>
Supplemental disclosures:		
Cash paid for interest	\$ 1,525	\$ 1,555
Additions to land, buildings, equipment and construction in progress remaining in accounts payable and accrued expense at year-end.	711	574

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

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2019 and 2018
(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 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 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.

Not-for-Profit Financial Statement Presentation

During 2019, the University adopted ASU No. 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of May 31, 2018 follows:

<u>Net Asset Classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
As previously presented:			
Unrestricted	\$ 142,599	\$ -	\$ 142,599
Temporarily Restricted	-	245,305	245,305
Permanently Restricted	-	151,196	151,196
Net assets as previously presented	142,599	396,501	539,100
Reclassifications to implement ASU 2016-14:			
Underwater endowments	70	(70)	-
Net assets, as reclassified	\$ 142,669	\$ 396,431	\$ 539,100

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2019 and 2018
(in thousands of dollars)

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 two categories based on the existence or absence of donor-imposed restrictions. The categories are without donor restrictions and with donor restrictions.

Net assets with donor restrictions are further classified into two categories: those that are restricted in perpetuity 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. These include certain life income funds (in cases where the remainder interest for such gifts is perpetually 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.

Net assets with donor restrictions that are restricted with regard to time or purpose 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.

Net assets without donor restriction generally result from contributions or other inflows of assets whose use by the University is not limited by donor-imposed stipulations. These net assets may be designated for specific purposes by actions of the University, net assets invested as quasi endowment, or may otherwise be limited by contractual agreement with outside parties.

Revenues are reported as increases in net assets without restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law.

Expirations of 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 revenues without donor restrictions.

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.

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2019 and 2018
(in thousands of dollars)

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, functional expense allocation, 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.

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.

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.

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2019 and 2018
(in thousands of dollars)

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 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 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.

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2019 and 2018
(in thousands of dollars)

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 and 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.

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 \$1,066 and \$1,069 for these activities as of May 31, 2019 and 2018, 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. The federal government has terminated the program and the amount is refundable to the federal government.

CLARK UNIVERSITY
Notes to Consolidated Financial Statements
May 31, 2019 and 2018
(in thousands of dollars)

Revenue Recognition

During 2019, the University adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) that provides entities with a single model for recognizing revenue from contracts with customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Accordingly, revenues are recognized when control of the promised goods or services is transferred to students and others in an amount that reflects the consideration the University expects to be entitled to receive in exchange for those goods and services. The University applied the five-step revenue model stipulated by ASC 606 to all of its significant revenue streams in order to determine when revenue is earned and recognized. The five-step model requires the University to i.) identify contracts with customers, ii.) identify performance obligations related to those contracts, iii.) determine the transaction price, iv.) allocate that transaction price to performance obligations, and v.) recognize revenue when or as the University satisfies a performance obligation. The adoption of the standard did not have a material impact on its consolidated financial statements.

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. Prices for undergraduate and graduate tuition are set based upon the strategic initiatives of the University, the costs of providing the instructional and support services needed for a quality program, and an assessment of the pricing of similar institutions in our market segment. As we set an appropriate tuition price for each program, we also consider to what extent we wish to offer financial assistance in the form of need based and merit based discounts designed to expand the population of students that are able to enroll in these various programs. The cost of room and board are determined separately from tuition based on competitive costs with alternative housing and dining options in the University's immediate neighborhood and to cover the costs of providing these services. Tuition, fees and auxiliary revenue and associated discounts 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, 2019 and 2018, the University had deferred revenue of \$6,302 and \$6,164, respectively.

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The activity and balance for deposits, advanced payments, and deferred revenue from contracts with customers are shown in the following table:

	Advance payments under grants	Enrollment and housing deposits	Accelerated Degree Program and other deferred tuition	Other Deferred Revenue	Total
Balance at May 31, 2017	\$ 1,815	\$ 840	\$ 7,850	\$ 34	\$ 10,540
Revenue recognized, deposits applied/forfeited	(1,309)	(836)	(4,144)	(48)	(6,337)
Payments received for future performance obligations	1,474	1,019	3,748	43	6,284
Balance at May 31, 2018	1,980	1,023	7,454	29	10,486
Revenue recognized, deposits applied/forfeited	(1,750)	(1,346)	(3,603)	(80)	(6,779)
Payments received for future performance obligations	3,099	1,274	3,446	153	7,971
Balance at May 31, 2019	\$ 3,329	\$ 951	\$ 7,297	\$ 102	\$ 11,679

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.

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 \$15,117 and \$15,449 for the years ended May 31, 2019 and 2018, respectively. Federal Pell Grants and Direct Student Loans in the amount of \$14,072 and \$13,874 for the years ended May 31, 2019 and 2018, respectively, are pass-through funding to students and are not presented in the Statements of Activities. State aid totaled \$911 and \$601 for the years ended May 31, 2019 and 2018, respectively, and are also pass-through funded and not included in the Statement of Activities.

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.

Expenses are presented by functional classification in accordance with the overall service mission of the University. Each functional classification displays all expenses related to underlying operations by natural classification. Depreciation expense is allocated based on square footage occupancy. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy.

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3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Clark University financial assets available within one year of the statement of position date for general expenditures are as follows (in thousands):

	<u>May 31, 2019</u>
Total assets at year end	\$ 637,911
Less:	
Notes receivable due in more than one year	(6,741)
Restricted contributions receivable due in less than one year	(1,542)
Contributions receivable due in more than one year	(1,990)
Donor-restricted endowment funds	(353,469)
Board-designated endowment funds	(61,941)
Inventories, prepaid expenses and other assets	(1,493)
Land, buildings, equipment, and construction-in-progress net of accumulated depreciation	(131,414)
Add:	
Endowment spending rule FY20	<u>20,837</u>
Financial assets available at year end for current use	<u>\$ 100,158</u>

As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the University has a committed line of credit in the amount of \$2 million, which it could draw upon. Additionally, the University has a board-designated endowment of \$61.9 million as of May 31, 2019. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated endowment funds and donor-restricted endowments contain investments with lock-up provisions that reduce the total investments that could be made available. See Note 7 for disclosures about investments.

The University's endowment funds consist of donor-restricted and board-designated endowment funds. Income from donor-restricted endowments is primarily restricted for specific purposes; therefore, is not available for general expenditure. As described in Note 15, for fiscal year 2019 and 2018 the Board of Trustees approved current distribution of 5% of the average market value for 20 quarters moving average. Under the provision of the spending rule, for fiscal years 2019 and 2018, the Board of Trustees approved a total spending rule allocation of \$20.8 million and \$18.9 million, respectively. As described in Note 8, the University has unfunded commitments on alternative investments totaling \$50.6 million and \$44.8 million for fiscal years 2019 and 2018, respectively.

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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, 2019 and 2018, the University had debt service fund collateral and debt reserve funds totaling \$1,062 and \$1,014, respectively.

5. CONTRIBUTIONS RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Endowment for academic purposes	\$ 50	\$ 81
Endowment for scholarships	509	765
Endowment for other programs	102	4
Nonendowment for academic purposes	331	276
Nonendowment for facilities	448	868
Nonendowment for other programs	2,627	3,249
Nonendowment for scholarships	15	60
Unrestricted	<u>266</u>	<u>189</u>
Total contributions receivable	<u>\$ 4,348</u>	<u>\$ 5,492</u>

Contributions are expected to be realized in the following periods:

	<u>2019</u>	<u>2018</u>
In less than one year	\$ 2,078	\$ 2,465
Between one year and five years	<u>2,270</u>	<u>3,027</u>
Total contributions receivable	<u>4,348</u>	<u>5,492</u>
Less:		
Present value discount (discount rates range from 6.99% to 10.06%) and allowance for unfulfilled pledges	<u>(486)</u>	<u>(765)</u>
Contributions receivable, net	<u>\$ 3,862</u>	<u>\$ 4,727</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, 2019 and 2018.

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, 2019 and 2018, student loans represented 0.7% and 0.8% of total assets, respectively.

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At May 31 student loans consisted of the following:

	<u>2019</u>	<u>2018</u>
Federal Perkins Loan Program	\$ 4,627	\$ 5,583
University Loan Program	<u>79</u>	<u>359</u>
Total student loans receivable	<u>4,706</u>	<u>5,942</u>
Less allowance for doubtful loans		
Beginning of year	(405)	(433)
Decrease/(increase)	320	28
End of year allowance for doubtful loans	<u>(85)</u>	<u>(405)</u>
Student loans receivable, net	<u>\$ 4,621</u>	<u>\$ 5,537</u>

The University participates in the Federal Perkins Loan Program. Funds advanced by the federal government of \$5,422 and \$5,326 at May 31, 2019 and 2018, are ultimately refundable to the federal government and are classified as liabilities in the Statements of Financial Position. Outstanding loans cancelled under the program result in a decrease in the liability to the federal government.

At May 31, 2019 and 2018, 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>
2019	<u>\$ 114</u>	<u>\$ 57</u>	<u>\$ 497</u>	<u>\$ 668</u>
2018	<u>\$ 104</u>	<u>\$ 105</u>	<u>\$ 890</u>	<u>\$ 1,099</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 investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Marketable securities		
Fixed income		
Money market mutual funds	\$ 3,000	\$ 9,425
Corporate bonds	27,034	26,035
Government bonds	12,138	61
Equity securities	52,110	60,562
Partnerships		
Private equity/venture capital	25,390	18,348
Private equity international	2,523	3,183
Real assets	19,476	23,920
Absolute return/hedge funds	185,217	188,839
International equity mutual funds	114,464	104,083
Other	118	127
Real estate, life insurance, notes receivable	327	360
Other	2,361	5,601
Beneficial interest in trusts	<u>9,851</u>	<u>10,555</u>
Total investments	<u>\$ 454,009</u>	<u>\$ 451,099</u>

Beneficial interest in trusts as of May 31, 2019 is comprised of marketable investments of \$315 in money market mutual funds, \$7,823 in equity mutual funds, \$1,384 in bonds, and \$329 in publicly traded real estate investment trusts (REIT's). Beneficial interest in trusts as of May 31, 2018 was 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).

Overall investment results on all investments, net of investment expenses and management fees, are summarized in the table below.

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gain (loss)	\$ (1,140)	\$ 38,323
Interest and dividends, net	527	407
Split-interest agreement annuity payments, change in annuities and unitrusts payable, and related expenses, net	<u>(281)</u>	<u>(380)</u>
Total investment return	<u>\$ (894)</u>	<u>\$ 38,350</u>

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

	<u>2019</u>	<u>2018</u>
Income appropriated under spending policy	\$ 20,277	\$ 19,158
Investment income net of amounts appropriated under spending policy	(20,863)	19,776
Other investment return	108	3
Change in value of beneficial interests in outside trusts	29	141
Annuity and unitrust obligation recovery (expense)	<u>(445)</u>	<u>(728)</u>
Total investment return	<u>\$ (894)</u>	<u>\$ 38,350</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.

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.

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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.

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.

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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, 2019 and 2018 by level within the fair value hierarchy.

	May 31, 2019				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	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
Corporate bonds	27,034	-	-	-	27,034
Government bonds	12,138	-	-	-	12,138
Equity securities	52,110	-	-	-	52,110
Partnerships measured at net asset value	-	-	-	347,188	347,188
Other measured at net asset value	-	-	-	2,361	2,361
Beneficial interests in trusts	9,852	-	-	-	9,852
Beneficial interests in outside trusts	-	-	1,492	-	1,492
Total	\$ 104,134	\$ -	\$ 1,492	\$ 349,549	\$ 455,175
Liabilities					
Interest rate swap agreement	\$ -	\$ -	\$ 194	\$ -	\$ 194
Total	\$ -	\$ -	\$ 194	\$ -	\$ 194

	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 interests in trusts	10,555	-	-	-	10,555
Beneficial interests in outside trusts	-	-	1,474	-	1,474
Interest rate swap agreement	-	-	364	-	364
Total	\$ 106,638	\$ -	\$ 1,838	\$ 344,101	\$ 452,577

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, 2019:

	Beginning Balance at June 1, 2018	Realized/ Unrealized Gains	Ending Balance at May 31, 2019
Beneficial interests in outside trusts	\$ 1,474	\$ 18	\$ 1,492
Total	\$ 1,474	\$ 18	\$ 1,492

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There were no transfers between levels during the years ended May 31, 2019 and 2018.

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	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>\$ 1,474</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, 2019.

Investments	Fair Value	Commitments	Frequency	Notice Period
Partnership-Other	\$ 119	\$ -	quarterly	90 days notice
Private equity/Venture Capital	11,140	13,201	temporarily illiquid	(1)
Private equity/Venture Capital	14,519	22,592	illiquid	n/a
Private equity/International	2,254	610	temporarily illiquid	(1)
Real assets	16,858	4,799	temporarily illiquid	(1)
Real assets	2,617	9,405	illiquid	n/a
Absolute Return/Hedge	215	-	temporarily illiquid	(1)
Absolute Return/Hedge	185,002	-	quarterly, annually	30-180 days notice
International equity mutual funds	114,464	-	daily, monthly	6-40 days notice
Other	<u>2,361</u>	<u>-</u>	illiquid	n/a
Total	<u>\$ 349,549</u>	<u>\$ 50,607</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>2019</u>	<u>2018</u>
Land	\$ 9,949	\$ 9,949
Land improvements and infrastructure	19,550	19,361
Buildings	123,030	120,739
Building improvements	99,456	96,450
Furniture, fixtures, and equipment	12,915	11,397
Assets under capital lease	1,356	1,356
Internal use software	649	568
Leasehold improvements	<u>69</u>	<u>69</u>
 Total	 266,974	 259,889
 Less: accumulated depreciation	 (136,890)	 (128,626)
Construction in progress	<u>1,330</u>	<u>1,254</u>
 Land, buildings and equipment, net	 <u>\$ 131,414</u>	 <u>\$ 132,517</u>

The FY19 figures above include activity residing in JRC. Specifically, \$3,142 of land, \$2,004 of land improvements and \$16,816 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 \$3,273 of which \$1,578 had been expended at May 31, 2019.

10. COMMITMENTS AND CONTINGENCIES

Notes Payable

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 12 for details.

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, 2019 and 2018 with related accumulated amortization of \$1,174 and \$1,011, as of May 31, 2019 and 2018, respectively.

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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
2020	\$ 187	\$ 70	\$ 257
2021	68	72	140
2022	28	61	89
2023	28	-	28
2024	15	-	15
2025 and beyond	2,718	-	2,718
Total minimum lease payments	\$ 3,044	203	\$ 3,247
Less: amount representing interest above		(10)	
Capital lease obligation		\$ 193	

Lease expense for 2019 and 2018 was \$186 and \$184, 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>2019</u>	<u>2018</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 (1.40% on May 31, 2019) are due in varying installments, plus interest, with final maturity in 2036.	\$ 35,140	\$ 36,585
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 3.75% 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.	12,865	13,855
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 \$730 to \$1,085.	<u>15,225</u>	<u>15,935</u>
Total outstanding bonds	63,230	66,375
Unamortized original issue premium	158	238
Unamortized financing issue costs	<u>(455)</u>	<u>(491)</u>
Total bonds payable	<u>\$ 62,933</u>	<u>\$ 66,122</u>

Principal payments related to the above indebtedness due in future fiscal years are as follows as of May 31, 2019:

2020	\$ 3,260
2021	3,380
2022	3,530
2023	3,670
2024	3,830
Thereafter	<u>45,560</u>
	<u>\$ 63,230</u>

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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, 2019 was 2.48588% resulting in an effective rate of 1.86441%. 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 (\$558) in 2019 and \$524 in 2018, 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, 2019, the University was in compliance with the financial covenants.

Interest expense on bonds payable was \$1,496 and \$1,481 for 2019 and 2018, respectively.

12. 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>

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.

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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, 2019 and 2018 was \$73 in both years. Interest income related to the loan receivable for the years ended May 31, 2019 and 2018 was \$67 in both years.

13. LINES 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, 2019 or May 31, 2018. The line of credit will expire on March 31, 2020.

On December 3, 2018, Clark University committed to a local community development corporation, which participates in the University Park Partnership, a line of credit of up to \$500 for five years with a maximum draw of \$100 per year. The line of credit is to cover carrying costs during restoration of a property in the Main South neighborhood. Outstanding balances on the line of credit are guaranteed by 92 Grand Street Commons LLC, which is secured by a mortgage on the property. The outstanding balance as of May 31, 2019 was \$46.

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14. COMPONENTS OF NET ASSETS

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

	<u>2019</u>	<u>2018</u>
Net assets without donor restriction		
Undesignated funds	\$ 83,539	\$ 77,732
Board designated endowment	<u>61,941</u>	<u>64,937</u>
Total net assets without donor restriction	<u>145,480</u>	<u>142,669</u>
Net assets with donor restriction		
Restricted to Time and Purpose		
Endowment investment gains	213,648	231,181
Pledges and life insurance policies for nonendowment purposes	3,582	4,290
Unspent endowment income restricted as to purpose	5,871	5,076
Unspent gifts restricted as to purpose	4,166	4,458
Trust agreements neither for unrestricted nor endowed purposes	214	230
Perpetual Donor Restriction		
Endowed funds	141,983	140,681
Pledges and life insurance policies for endowment purposes	686	875
Trust agreements with endowed purposes	8,547	8,948
Donor-restricted loan funds	<u>763</u>	<u>692</u>
Total net assets with donor restriction	<u>379,460</u>	<u>396,431</u>
Total net assets	<u>\$ 524,940</u>	<u>\$ 539,100</u>

The University has classified certain funds in the Statements of Financial Position as net assets restricted as to time or purpose, 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, 2019, endowed funds with a fair value of \$99,658 representing \$48,123 of gains in net assets with restrictions as to time or purpose and \$51,534 of principal in net assets with restrictions in perpetuity, could be utilized by the Trustees if it should become impossible and/or impractical to employ the funds as the donors intended. Designated funds without restriction are legally funds without restriction invested with the University's pooled endowment.

15. ENDOWMENTS

The University's endowment consists of 599 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.

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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 amount of net assets with restrictions in perpetuity will generally remain intact. The perspective is aligned with the accounting standards definition that funds restricted in perpetuity 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 net assets with restrictions in perpetuity and is regarded as net appreciation is classified as net assets with restrictions as to time or purpose 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 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.”

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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, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 353,985	\$ 353,985
Board-designated funds	<u>61,941</u>	<u>1,646</u>	<u>63,587</u>
Total funds	<u>\$ 61,941</u>	<u>\$ 355,631</u>	<u>\$ 417,572</u>

Changes in endowment net assets for the fiscal year ended May 31, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 65,007	\$ 371,862	\$ 436,869
Investment returns, net	(168)	(169)	(337)
Contributions and other additions	5	1,185	1,190
Transfers	-	181	181
Appropriations of endowment assets for expenditure (draw)	<u>(2,903)</u>	<u>(17,428)</u>	<u>(20,331)</u>
Endowment net assets, end of year	<u>\$ 61,941</u>	<u>\$ 355,631</u>	<u>\$ 417,572</u>

Endowment net asset composition by type of fund as of May 31, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 370,216	\$ 370,216
Board-designated funds	<u>65,007</u>	<u>1,646</u>	<u>66,653</u>
Total funds	<u>\$ 65,007</u>	<u>\$ 371,862</u>	<u>\$ 436,869</u>

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

	<u>Without Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 62,141	\$ 346,668	\$ 408,809
Investment returns, net	5,438	32,385	37,823
Contributions and other additions	-	9,424	9,424
Transfers	13	(8)	5
Appropriations of endowment assets for expenditure (draw)	<u>(2,585)</u>	<u>(16,607)</u>	<u>(19,192)</u>
Endowment net assets, end of year	<u>\$ 65,007</u>	<u>\$ 371,862</u>	<u>\$ 436,869</u>

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 \$4,074 in 2019 and \$4,020 in 2018.

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 2019 and 2018 totaled \$16 and \$22, respectively. As of May 31, 2019 and 2018, the University had accrued \$435 and \$1,014, 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 \$7,998 and \$7,674 as of May 31, 2019 and 2018, respectively. The University first invested with this firm well prior to his joining the board. As of July 24, 2019 the University initiated a redemption of its interest in this partnership.

Clark's Assistant Secretary and Vice President of Community Relations is also the Treasurer and a board member of the Community Development Corporation, to whom Clark has guaranteed a line of credit related to restoration of the Main South neighborhood. See Note 13 for more information on the line of credit.

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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, 2019 and through September 24, 2019, 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, 2019
(in thousands)

	Clark University	Jonas Realty Corporation	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ 30,539	\$ 105	\$ -	\$ 30,644
Due to/ due from related party	-	-	-	-
Funds held by trustees	1,062	-	-	1,062
Interest and dividends receivable	107	-	-	107
Grants and contracts receivable	1,233	-	-	1,233
Student accounts receivable, net of allowance for doubtful accounts of \$392 and \$326 in 2019 and 2018, respectively	214	-	-	214
Other accounts receivable	1,019	559	(559)	1,019
Loan receivable	6,741	-	-	6,741
Prepaid expenses and other assets	1,493	-	-	1,493
Contributions receivable - net	3,862	-	-	3,862
Student loans receivable - net	4,621	-	-	4,621
Beneficial interests in outside trusts	1,492	-	-	1,492
Investments, at fair value	454,009	-	-	454,009
Land, buildings, equipment, and construction in progress- net of accumulated depreciation	109,451	21,963	-	131,414
Interest rate swap, at fair value (Note 11)	-	-	-	-
Total assets	<u>\$ 615,843</u>	<u>\$ 22,627</u>	<u>\$ (559)</u>	<u>\$ 637,911</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	\$ 14,041	\$ 51	\$ (559)	\$ 13,533
Advance payments under grants	3,329	-	-	3,329
Other liabilities	3,350	-	-	3,350
Deposits and deferred revenue	8,350	-	-	8,350
Notes payable (Note 10)	-	9,568	-	9,568
Interest rate swap at fair market value (Note 11)	194	-	-	194
Bonds payable (Note 11)	62,933	-	-	62,933
Liability for split-interest agreements	6,292	-	-	6,292
Federal loan program advances	5,422	-	-	5,422
Total liabilities	<u>103,911</u>	<u>9,619</u>	<u>(559)</u>	<u>112,971</u>
NET ASSETS				
Without restriction	132,472	13,008	-	145,480
With restriction				
Time or purpose	228,048	-	-	228,048
Perpetual	151,979	-	-	151,979
Underwater endowment	(567)	-	-	(567)
Total net assets	<u>511,932</u>	<u>13,008</u>	<u>-</u>	<u>524,940</u>
Total liabilities and net assets	<u>\$ 615,843</u>	<u>\$ 22,627</u>	<u>\$ (559)</u>	<u>\$ 637,911</u>

CLARK UNIVERSITY
Consolidating Statement of Activities
For the year ended May 31, 2019
(in thousands)

	Clark University Without Restriction	Jonas Realty Without Restriction	Eliminations	Total Without Restriction
REVENUES AND OTHER SUPPORT				
Operating revenues				
Tuition and fees	\$ 132,292	\$ -	\$ -	\$ 132,292
Financial aid discount	(66,440)	-	-	(66,440)
Net tuition and fees	65,852	-	-	65,852
Auxiliary services	15,593	-	-	15,593
Contributions	4,637	-	-	4,637
Income appropriated under spending policy	16,349	-	-	16,349
Grants and contracts	6,808	-	-	6,808
Federal student financial aid	1,046	-	-	1,046
Other investment return	93	-	-	93
Other income	3,699	373	(373)	3,699
Net assets released from restriction	4,801	-	-	4,801
Total operating revenues and other support	118,878	373	(373)	118,878
EXPENSES				
Operating expenses				
Instruction	43,768	-	28	43,796
Student services	14,891	-	62	14,953
Academic support	16,988	-	55	17,043
General institutional	11,991	33	152	12,176
Alumni and development	4,904	-	-	4,904
Research	8,205	-	-	8,205
Auxiliary services	13,628	-	21	13,649
Allocated depreciation/interest/fees	-	691	(691)	-
Total operating expenses	114,375	724	(373)	114,726
Change in net assets from operations	4,503	(351)	-	4,152
NON-OPERATING ACTIVITY				
Investment income (loss) net of amounts appropriated under spending policy	(3,093)	-	-	(3,093)
Contributions	96	-	-	96
Change in value of interest rate swap	(558)	-	-	(558)
Change in value of beneficial interests in outside trusts	-	-	-	-
Annuity and unitrust obligation recovery (expense)	(78)	-	-	(78)
Other non-operating charges, net	635	-	-	635
Net assets released from restrictions	1,657	-	-	1,657
Total non-operating revenue (expense)	(1,341)	-	-	(1,341)
Change in net assets	3,162	(351)	-	2,811
Net assets - beginning of year	129,309	13,360	-	142,669
Net assets - end of year	\$ 132,471	\$ 13,009	\$ -	\$ 145,480