KPMG

COLLEGE OF THE HOLY CROSS

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

COLLEGE OF THE HOLY CROSS

Financial Statements

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
College of the Holy Cross:

We have audited the accompanying financial statements of the College of the Holy Cross, which comprise the balance sheets as of June 30, 2017 and 2016, and the related 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 is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College of the Holy Cross as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

September 29, 2017

COLLEGE OF THE HOLY CROSS

Balance Sheets

June 30, 2017 and 2016

(In thousands)

Assets	**2017**	**2016**
Cash and cash equivalents	$ 25,198	$ 55,676
Short-term investments	24,813	—
Deposits with bond trustee	12	22,409
Contributions receivable, net	65,093	80,392
Accounts and loans receivable, net	7,488	7,821
Long-term investments	756,997	688,461
Land, buildings and equipment, net	293,812	240,422
Other assets	5,520	5,740
Total assets	$ 1,178,933	$ 1,100,921
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 38,654	$ 36,427
Deferred revenue and student deposits	5,812	4,312
U.S. Government refundable advances	4,908	4,932
Split-interest obligations	4,275	3,756
Accrued pension obligation	4,291	12,272
Interest rate swap	8,453	11,966
Long-term debt	157,056	161,963
Total liabilities	223,449	235,628
Net assets:		
Unrestricted	476,927	391,784
Temporarily restricted	275,756	275,677
Permanently restricted	202,801	197,832
Total net assets	955,484	865,293
Total liabilities and net assets	$ 1,178,933	$ 1,100,921

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statement of Activities

Year ended June 30, 2017

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 143,094	—	—	143,094
Auxiliary enterprises – residence and dining fees	32,086	—	—	32,086
Less scholarship aid to students	(54,003)	—	—	(54,003)
Net student fees	121,177	—	—	121,177
Contributions – annual fund	8,463	—	—	8,463
Other auxiliary enterprises	11,698	—	—	11,698
Other revenues	4,331	—	—	4,331
Operating revenues before nonoperating net assets used in operations	145,669	—	—	145,669
Nonoperating net assets used in operations:				
Long-term investment income used in operations	27,594	—	—	27,594
Restricted and designated net assets used in operations	8,249	—	—	8,249
Total operating revenues	181,512	—	—	181,512
Operating expenses:				
Instruction	65,966	—	—	65,966
Academic support	13,185	—	—	13,185
Student services	34,796	—	—	34,796
Institutional support	28,393	—	—	28,393
Auxiliary enterprises	33,421	—	—	33,421
Total operating expenses	175,761	—	—	175,761
Increase in net assets from operations	5,751	—	—	5,751
Nonoperating:				
Contributions	2,386	16,985	4,864	24,235
Net return on long-term investments	39,329	44,446	52	83,827
Net gain on interest rate swap	3,513	—	—	3,513
Nonoperating net assets used in operations	(35,843)	—	—	(35,843)
Net assets released from restrictions	61,398	(61,398)	—	—
Pension related changes, other than net periodic benefit cost	7,776	—	—	7,776
Gain on debt defeasance	326	—	—	326
Other changes, net	507	46	53	606
Increase in net assets from nonoperating activities	79,392	79	4,969	84,440
Increase in net assets	85,143	79	4,969	90,191
Net assets, beginning of year	391,784	275,677	197,832	865,293
Net assets, end of year	$ 476,927	275,756	202,801	955,484

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statement of Activities

Year ended June 30, 2016

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:					
Tuition and fees	$	137,352	—	—	137,352
Auxiliary enterprises – residence and dining fees		31,196	—	—	31,196
Less scholarship aid to students		(50,706)	—	—	(50,706)
Net student fees		117,842	—	—	117,842
Contributions – annual fund		7,753	—	—	7,753
Other auxiliary enterprises		11,029	—	—	11,029
Other revenues		4,447	—	—	4,447
Operating revenues before nonoperating net assets used in operations		141,071	—	—	141,071
Nonoperating net assets used in operations:					
Long-term investment income used in operations		26,524	—	—	26,524
Restricted and designated net assets used in operations		7,657	—	—	7,657
Total operating revenues		175,252	—	—	175,252
Operating expenses:					
Instruction		65,440	—	—	65,440
Academic support		12,649	—	—	12,649
Student services		30,957	—	—	30,957
Institutional support		28,386	—	—	28,386
Auxiliary enterprises		33,222	—	—	33,222
Total operating expenses		170,654	—	—	170,654
Increase in net assets from operations		4,598	—	—	4,598
Nonoperating:					
Contributions		540	24,171	6,157	30,868
Net return on long-term investments		(11,747)	(12,746)	(77)	(24,570)
Net loss on interest rate swap		(3,004)	—	—	(3,004)
Nonoperating net assets used in operations		(34,181)	—	—	(34,181)
Net assets released from restrictions		42,341	(42,341)	—	—
Pension related changes, other than net periodic benefit cost		(11,756)	—	—	(11,756)
Loss on debt defeasance		(1,093)	—	—	(1,093)
Other changes, net		1,000	(232)	100	868
(Decrease) increase in net assets from nonoperating activities		(17,900)	(31,148)	6,180	(42,868)
(Decrease) increase in net assets		(13,302)	(31,148)	6,180	(38,270)
Net assets, beginning of year		405,086	306,825	191,652	903,563
Net assets, end of year	$	391,784	275,677	197,832	865,293

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 90,191	$ (38,270)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and accretion	13,723	13,097
Net realized and unrealized (gains) losses on investments	(83,613)	23,969
Contributions for long-term investment and facilities	(15,428)	(21,797)
Net (gain) loss on interest rate swap	(3,513)	3,004
Pension related changes, other than net periodic benefit cost	(7,776)	11,756
(Gain) loss on debt defeasance	(326)	1,093
Decrease (increase) in operating assets, net	1,358	(2,202)
Increase in operating liabilities, net	2,777	150
Net cash used in operating activities	(2,607)	(9,200)
Cash flows from investing activities:		
Net loans repaid by students and others	397	19
Purchase of land, buildings, and equipment, net of construction cost payable	(67,548)	(33,403)
Proceeds from sale of short-term investments	—	1,550
Purchase of short-term investments	(24,824)	—
Proceeds from sale of long-term investments	287,808	181,541
Purchase of long-term investments	(272,720)	(164,627)
Net cash used in investing activities	(76,887)	(14,920)
Cash flows from financing activities:		
Payments on long-term debt	(6,230)	(6,485)
Payments to trustee on long-term debt defeasance	(13,885)	(12,063)
Proceeds from long-term debt, net of issue cost	16,714	42,091
Decrease (increase) in deposits with bond trustee	22,397	(22,409)
Decrease in U.S. Government refundable advances	(24)	(20)
Proceeds from contributions for long-term investment	12,573	10,422
Proceeds from contributions for facilities	17,471	12,961
Net cash provided by financing activities	49,016	24,497
Net change in cash and cash equivalents	(30,478)	377
Cash and cash equivalents, beginning of year	55,676	55,299
Cash and cash equivalents, end of year	$ 25,198	$ 55,676
Supplemental data:		
Change in accounts payable for land, buildings and equipment	$ 745	$ 11,610
Interest paid	7,046	6,026

See accompanying notes to financial statements.

(1) Background

College of the Holy Cross (the College or Holy Cross) is a not-for-profit educational institution committed to the principle of educating men and women for others. As a Jesuit college, Holy Cross takes its place in a 450-year tradition of Catholic education that has distinguished itself for intellectual rigor, high academic standards, and religious and moral sensitivity. Top-ranked nationally, Holy Cross is a coeducational liberal arts college with a community of approximately 2,900 students, situated on a 174-acre campus. Holy Cross was founded in 1843 by the second bishop of Boston, Benedict Joseph Fenwick, S.J., making it the oldest Catholic college in New England.

(2) Summary of Significant Accounting Policies

(a) Basis of Statement Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(b) Classification of Net Assets

Unrestricted net assets – Net assets not subject to donor-imposed stipulations and available for the general operations of the College. Such net assets may be designated by the Board of Trustees for specific purposes, including to function as endowment funds.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations as to the timing of their availability or use for a particular purpose. Investment returns on donor-restricted endowment funds are classified as changes in temporarily restricted net assets and are generally available for appropriation to support operational needs subject to the College’s endowment spending policy and any restrictions on use imposed by donors.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations requiring they be maintained in perpetuity by the College. The College classifies the following portions of donor-restricted endowment funds as permanently restricted net assets: (a) the original value of assets contributed to permanent endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor.

(c) Statements of Activities

The statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the College’s undergraduate education program, grants for research conducted by the academic departments, auxiliary enterprise activities, and contributions to the annual fund. Nonoperating net assets used in operations include endowment income appropriated by the College to support operating activities and nonoperating contributions expended in support of operations or made available for operations by virtue of the expiration of a time restriction.

(Continued)

Nonoperating activities include contributions received other than for the annual fund, investment return on short and long-term investments, grant income to fund capital acquisitions, any gains or losses on debt-related derivative instruments, pension adjustments other than net periodic benefit cost, and miscellaneous items not related to the College’s academic or research activities. To the extent nonoperating contributions, investment income and gains are used for operations, they are reclassified as “nonoperating net assets used in operations” on the statements of activities.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions as follows:

- Student tuition and fees are recorded at established rates during the year that the related academic services are rendered, net of financial aid and scholarships provided directly to students. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.
- Contributions, including unconditional promises to give reported as contributions receivable, are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions on the statement of activities. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.
- Contributions of land, buildings, or equipment are reported as unrestricted nonoperating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as increases in temporarily restricted net assets until the assets are acquired.
- Auxiliary enterprises include a variety of services that enhance the quality of student life on campus. Revenues are displayed in two sections. Fees for housing and dining services are displayed along with tuition and fees net of scholarship aid to arrive at net student fee revenue. Other auxiliary service enterprise revenues, which include college retail operations, cash dining, catering, intercollegiate athletics and graphic arts, are displayed separately. Expenses associated with auxiliary enterprise activities are reported as a single total and include an allocated portion of the cost of operating and maintaining the College’s plant assets, interest and depreciation expense.
- Dividends, interest, and net gains on investments of endowments are reported as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund; as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the current use of the income or net gains; and as increases in unrestricted net assets in all other cases.

(Continued)

Expenses are reported as decreases in unrestricted net assets. Expenses associated with the operation and maintenance of the College's plant assets, including interest and depreciation expense, are allocated on the basis of square footage utilized by the functional categories. Expenses associated with fundraising activities of the College were $8,474 and $9,243 in 2017 and 2016, respectively, and are included in institutional support in the statements of activities.

(d) Cash Equivalents

For the purpose of the statements of cash flows, the College considers investments with maturities at date of purchase of three months or less to be cash equivalents, except that any such investments that are part of the endowment are classified as long-term investments.

(e) Fair Value Measurements

Short-term and long-term investments, deposits with bond trustee, investments held in a nonqualified deferred compensation plan, and the interest rate swap are reported at their respective fair values. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Except for investments reported at net asset value or its equivalent (NAV) as a practical expedient to estimate fair value, the College uses a three-tiered hierarchy to categorize those assets and liabilities carried at fair value based on the valuation methodologies employed. The hierarchy is defined as follows:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Valuations based on unobservable inputs are used in situations in which little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The College utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability. Transfers between fair value categories are recognized at the end of the reporting period.

(f) Accounts and Loans Receivable

Accounts and loans receivable include amounts due from students and employees, as well as reimbursements due from sponsors of externally funded research.

(g) Deposits with Bond Trustee

Deposits with bond trustee consist of the unexpended proceeds of certain bonds payable, which will be used for construction of certain facilities. These funds are reported at fair value and are invested in short-term, highly liquid securities considered Level 1 in the fair value hierarchy.

(Continued)

(h) Land, Buildings, and Equipment

Constructed and purchased property and equipment are carried at cost or at estimated fair value if acquired by gift, less accumulated depreciation. Expenditures for library books are charged to operations in the period acquired. Long-lived fixed assets, with the exception of land and artwork, are depreciated using the straight-line method over the assets' estimated useful lives.

(i) Other Assets

Other assets consist of prepaid expenses, inventories, and investments held in a nonqualified deferred compensation plan. Investments held in a nonqualified deferred compensation plan total $3,173 and are considered Level 1 in the fair value hierarchy.

(j) U.S. Government Refundable Advances

The College holds certain amounts advanced by the U.S. Government under the Federal Perkins Loan Program (the Program). Such amounts are loaned to students and may be re-loaned by the College after collection; however, in the event that the College no longer participates in the Program, the amounts are generally refundable to the U.S. Government.

(k) Split-Interest Obligations

The College's split-interest obligations consist principally of charitable gift annuities and irrevocable charitable remainder trusts for which the College serves as trustee. Contribution revenue is recognized at the date a gift annuity or trust is established after recording a liability at the present value of the estimated future payments to be made to the beneficiaries. Liabilities are adjusted during the terms of the agreements to reflect payments to beneficiaries, returns on trust assets, accretion of discounts and other considerations that affect the estimates of future payments.

(l) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Tax Status

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal and state income taxes under Section 501(a) of the Code and applicable state laws. The College believes it has taken no significant uncertain tax positions.

(Continued)

(In thousands)

(3) Contributions Receivable

Contributions receivable consist of the following at June 30:

		2017	2016
Unconditional promises expected to be collected in:			
Less than one year	$	12,802	20,159
One to five years		52,237	57,076
Thereafter		5,727	10,229
Less allowances for uncollectible pledges and pledge discounts (0.11%–2.43%)		(5,673)	(7,072)
	$	65,093	80,392

(4) Investments

(a) Strategy

The investment objective of the College is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The College's investment strategy incorporates a diversified asset allocation approach that maintains, within defined limits, exposure to global equity, fixed income, real estate, commodities, and private equity markets. Global equities cover the U.S. as well as both developed and emerging markets overseas, and long/short hedge funds. Absolute return and marketable alternative funds invest in a broad range of investments that are less correlated with broad equities markets. This includes credit-oriented strategies, multi-strategy funds where the manager has a broad mandate to invest opportunistically, and event driven funds where managers seek opportunity in various forms of arbitrage strategies as well as in corporate activities such as mergers and acquisitions. These funds may employ the use of leverage and derivatives to achieve their return. Private equity strategies include distressed investments which includes entities involved in financial reorganizations or workout situations, buyout and venture capital, as well as fund of funds vehicles used to more broadly diversify the pool of investments. The real asset classification includes investments in public and private real estate, energy, and commodities.

The majority of the College's investments are managed in a pooled fund that consists primarily of endowment assets. Other investments are managed separately from the pool. These investments consist primarily of fixed income securities, principally government securities and money market funds held for the College's working capital needs, and various fixed income, equity and real asset holdings associated with split-interest agreements and short-term investments.

(b) Reporting Basis

Investments are reported at estimated fair value. The values of publicly traded fixed income and equity securities are based upon quoted market prices at the close of business on the last day of the fiscal year. Investments in units of nonpublicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market values of the underlying securities.

Investments whose fair values are estimated using net asset value (NAV) or its equivalent as the practical expedient include shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable or not difficult to value. In addition, investments in marketable alternatives, absolute return, private equities and real assets, and certain equity and fixed income investments are valued using current estimates of fair value based upon the NAV of the fund as determined by the general partner or investment manager of the respective fund. These general partner valuations consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, and other pertinent information.

The inputs or methodologies used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of each fund's underlying assets or liabilities. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. The College has assessed the values provided by the external managers and believes the amounts reported represent reasonable estimates of fair value.

(Continued)

(In thousands)

The following table summarizes the valuation of investments as of June 30, 2017:

		NAV	Level 1	Level 2	Level 3	Total
Short-term investments	$	—	24,813	—	—	24,813
Long-term investments:						
Cash equivalents		—	7,785	—	—	7,785
Fixed income:						
U.S. government		18,069	25,036	—	—	43,105
Global equities:						
U.S.		124,304	23,094	—	—	147,398
International developed		99,614	30,725	—	—	130,339
Emerging markets		37,429	—	—	—	37,429
Long-short		99,521	—	—	—	99,521
Absolute return		118,571	—	—	—	118,571
Private equities:						
Buyout		22,342	—	—	—	22,342
Distressed		12,613	—	—	—	12,613
Diversified		7,261	—	—	—	7,261
Venture capital		27,878	—	—	—	27,878
Real assets:						
Commodities		35,041	—	—	—	35,041
Energy		32,872	—	—	—	32,872
Real estate		25,767	—	—	—	25,767
Split-interest agreements		—	5,684	1,323	2,068	9,075
Total long-term investments		661,282	92,324	1,323	2,068	756,997
Total	$	661,282	117,137	1,323	2,068	781,810

The following table presents additional information about investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2017:

		Beginning balance	Acquisitions	Dispositions	Net realized and unrealized gains	Ending balance
Split-interest agreements	$	2,363	—	(295)	—	2,068

(Continued)

(In thousands)

The following table summarizes the valuation of investments as of June 30, 2016:

	NAV	Level 1	Level 2	Level 3	Total
Long-term investments:					
Cash equivalents	$ —	6,608	—	—	6,608
Fixed income:					
U.S. government	28,096	—	—	—	28,096
Global	23,734	—	—	—	23,734
Global equities:					
U.S.	104,640	18,216	—	—	122,856
International developed	80,198	22,394	—	—	102,592
Emerging markets	15,837	31,895	—	—	47,732
Long-short	89,942	—	—	—	89,942
Absolute return	109,284	—	—	—	109,284
Private equities:					
Buyout	22,806	—	—	—	22,806
Distressed	10,347	—	—	—	10,347
Diversified	10,676	—	—	—	10,676
Venture capital	23,992	—	—	—	23,992
Real assets:					
Commodities	36,997	—	—	—	36,997
Energy	21,385	—	—	—	21,385
Real estate	23,079	—	—	—	23,079
Split-interest agreements	—	4,444	1,528	2,363	8,335
Total	$ 601,013	83,557	1,528	2,363	688,461

The following table presents additional information about investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

	Beginning balance	Acquisitions	Dispositions	Net realized and unrealized gains	Ending balance
Split-interest agreements	$ 2,363	—	—	—	2,363

(Continued)

(In thousands)

Net return on long-term investments consists of the following for the years ended June 30:

	2017	2016
Interest, dividends and other income	$ 3,500	3,753
Unrealized gains (losses), net	52,323	(28,350)
Realized gains, net	31,453	4,381
Direct management fees and other	(3,449)	(4,354)
Net return on investments	$ 83,827	(24,570)

(c) Commitments

Private equity and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the College is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally between ten and fifteen years, and provide for annual one year extensions for the purpose of disposing portfolio positions and returning capital to the investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments is $113,490 as of June 30, 2017.

(d) Liquidity

Absolute return and certain global equity and fixed income investments are redeemable at NAV under the terms of the subscription and/or partnership agreements. Investments, including short-term investments, with daily liquidity generally do not require any notice prior to withdrawal. Investments with monthly, quarterly or annual redemption frequency typically require notice periods ranging from 30 to 180 days. The fair values of long-term investments as of June 30, 2017 are categorized based on redemption frequency as follows:

	Daily	Monthly	Quarterly	Annual	Illiquid	Total
Cash equivalents	$ 7,785	—	—	—	—	7,785
Fixed income	25,036	—	—	—	18,069	43,105
Global equities	75,865	96,435	198,112	25,783	18,492	414,687
Absolute return	—	—	20,185	72,649	25,737	118,571
Private equities	—	—	—	—	70,094	70,094
Real assets	—	24,778	—	—	68,902	93,680
Split-interest agreements	—	—	—	—	9,075	9,075
Total	$ 108,686	121,213	218,297	98,432	210,369	756,997

Investments with a redemption frequency of illiquid include lock-ups with definite expiration dates, restricted shares, side pockets, gates or funds in liquidation which have suspended normal liquidity terms, as well as private equity and real assets funds where the College has no liquidity terms until the investments are sold by the fund manager. The College has in liquidation $1,200 of such investments at June 30, 2017 for which it has not received cash. Investments associated with split-interest agreements have been categorized as illiquid because they are not available to support operations. Investments totaling $43,625 are subject to side pockets or redemption lock-ups which will expire in March 2020. Additionally, in accordance with its investment objectives, the College has outstanding redemption requests for $50,182 of investments held in global equities with quarterly liquidity.

(5) Endowment

The College's endowment consists of approximately 800 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Relevant Law

The Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) permits the Board of Trustees to exercise its discretion in determining the appropriate level of expenditure from a donor-restricted endowment fund in accordance with a set of guidelines about what constitutes prudent spending. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. UPMIFA permits the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide the College in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the College and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the College; and 7) the investment policy of the College.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. The accounting standards define permanently restricted funds as those that must be held in perpetuity even though the historic-dollar-value may be appropriated on a temporary basis. In accordance with appropriate accounting standards, the College classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets, until appropriated for spending by the Board of Trustees.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies generally are the result of unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the original contributed value are classified as an increase in unrestricted net assets. There were no material deficiencies of this nature as of June 30, 2017 and 2016.

(c) Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board-designated funds. The primary investment objective of the endowment fund is to maintain and grow the fund’s real value by generating average annual real returns that meet or exceed the spending rate, after inflation, management fees and administrative costs. Consistent with this goal, the Board of Trustees and the Investment Committee, a standing Committee of the Board of Trustees, intend that the endowment fund be managed with an intention to maximize total returns consistent with prudent levels of risk and to reduce portfolio risk through asset allocation and diversification.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee (the Committee) is responsible for establishing an asset allocation policy. The asset allocation policy is designed to attempt to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Committee designs a policy portfolio in light of the endowment’s needs for liquidity, preservation of purchasing power and risk tolerances. There is no limitation on the types of investments in which the endowment fund may be invested, and it is intended that the Board of Trustees and the Committee have the broadest flexibility as to the selection of investments for the endowment fund.

The College targets a diversified asset allocation that places emphasis on investments in global equities, fixed income, real assets, private equity and absolute return strategies to achieve its long-term return objectives within prudent risk constraints. The Investment Committee reviews the policy portfolio asset allocation, exposures and risk profile on an ongoing basis.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The College’s spending policy is 4.5% of the endowment’s fair value applied to a three-year moving average with a one year lag. The amount appropriated for operations is $27,594 and $26,524 for the years ended June 30, 2017 and 2016, respectively.

In establishing these policies, the College considers the expected return on its endowment and its programming needs. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power and to provide a predictable and stable source of revenue to the annual operating budget. Additional real growth will be provided through new gifts, excess investment return or additions designated by the Board of Trustees.

(In thousands)

Changes in endowment net assets and net asset composition, not including pledges, consist of the following at June 30:

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$ 324,099	170,736	186,158	680,993
Investment return	39,166	44,134	—	83,300
Contributions	—	—	9,218	9,218
Transfers designated by board	3,031	—	—	3,031
Appropriated for expenditure	(13,914)	(13,680)	—	(27,594)
Endowment net assets, June 30, 2017	$ 352,382	201,190	195,376	748,948
Composition of endowment net assets:				
Donor-restricted endowment funds	$ —	201,190	195,376	396,566
Board-designated endowment funds	352,382	—	—	352,382
Total endowment net assets	$ 352,382	201,190	195,376	748,948

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$ 348,821	196,200	176,289	721,310
Investment return	(11,459)	(12,691)	—	(24,150)
Contributions	—	—	9,869	9,869
Transfers designated by board	472	16	—	488
Appropriated for expenditure	(13,735)	(12,789)	—	(26,524)
Endowment net assets, June 30, 2016	$ 324,099	170,736	186,158	680,993
Composition of endowment net assets:				
Donor-restricted endowment funds	$ —	170,736	186,158	356,894
Board-designated endowment funds	324,099	—	—	324,099
Total endowment net assets	$ 324,099	170,736	186,158	680,993

(In thousands)

(6) Land, Buildings, and Equipment

The following is a summary of the College's property and equipment as of June 30:

	Estimated lives		2017	2016
Land	—	$	5,747	3,988
Land improvements	20–30		44,940	43,280
Buildings	5–55		399,005	326,433
Equipment and furniture	5–20		63,380	60,348
Construction in progress	—		40,774	51,556
Artwork	—		1,302	1,250
			555,148	486,855
Less accumulated depreciation			(261,336)	(246,433)
		$	293,812	240,422

(7) Retirement Plans

The College's contributory retirement plan covers exempt employees. Participating employees contribute a minimum of 2% to a maximum of 5% of their base salary. The College makes a matching contribution equal to 10% of compensation up to the taxable wage base and 12% of compensation in excess of the taxable wage base. The College contributed $5,310 and $5,210, for the years ended June 30, 2017 and 2016, respectively.

The College's noncontributory defined benefit retirement plan covers nonexempt employees. The College recognizes the funded status, the difference between the fair value of the plan assets and the projected benefit obligation, as an asset or liability in its balance sheet and recognizes the change in that funded status in the year in which the change occurred through changes in nonoperating unrestricted net assets.

The benefit obligation is determined by using a cash flow matching methodology that determines a single rate based on discounted projected cash flows for the plan. Each year the projected cash flow is discounted at a spot rate that is appropriate for that maturity; the discount rate is the single equivalent rate that produces the same discounted present value.

(In thousands)

The following table sets forth the defined benefit pension plan's obligations, fair value of plan assets and funded status for the years ended June 30:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	72,511	62,005
Service cost		1,863	2,224
Interest cost		2,672	2,811
Plan amendments		(2,470)	—
Benefits paid		(2,218)	(2,038)
Actuarial (gain) loss		(1,601)	7,509
Benefit obligation at end of year		70,757	72,511
Change in plan assets:			
Fair value of plan assets at beginning of year		60,239	61,154
Actual return on plan assets		6,945	(377)
Employer contribution		1,500	1,500
Benefits paid		(2,218)	(2,038)
Fair value of plan assets at end of year		66,466	60,239
Funded status – net obligation recognized in the balance sheets	$	(4,291)	(12,272)

The measurement date used to determine pension assets and benefit obligations was June 30, 2017.

	2017	2016
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.03%	3.90%
Rate of compensation increase	3.50	3.50
Weighted average assumptions used to determine net periodic benefit cost for year ending June 30:		
Discount rate	3.90	4.62
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase	3.50	3.50

The accumulated benefit obligation was $64,244 at June 30, 2017 and $66,541 at June 30, 2016. The benefits expected to be paid after June 30, 2017 are as follows: $2,616 in 2018, $2,736 in 2019, $2,915 in 2020, $3,057 in 2021, $3,220 in 2022 and aggregate benefits for years 2023 through 2027 are expected to be $18,875. The College plans to make a nonmandatory employer contribution of $1,000 for fiscal year 2018.

(In thousands)

The following table sets forth the components of net periodic benefit cost and the nonoperating charge (credit) reported in the statements of activities for the years ended June 30:

		2017	2016
Components of net periodic benefit cost:			
Service cost – benefits earned	$	1,863	2,224
Interest cost on projected benefit obligation		2,672	2,811
Expected return on plan assets		(4,174)	(4,261)
Amortization of prior service (credit) cost		(197)	126
Recognized actuarial loss		1,132	265
Net periodic benefit cost		1,296	1,165
Changes recognized in nonoperating:			
Net (gain) loss arising during the year		(4,371)	12,147
New prior service credit		(2,470)	—
Amortization of prior service credit (cost)		197	(126)
Recognized actuarial loss		(1,132)	(265)
Total recognized as nonoperating		(7,776)	11,756
Total recognized in the statements of activities	$	(6,480)	12,921

Amounts not yet reflected in net periodic benefit cost and included in the balance sheets are as follows:

		2017	2016
Accumulated net loss	$	(16,003)	(21,506)
Prior service credit		2,273	—
Accumulated other nonoperating loss		(13,730)	(21,506)
Accumulated contributions in excess of net periodic benefit cost		9,439	9,234
Net obligation recognized in the balance sheets	$	(4,291)	(12,272)

The estimated amounts that will be amortized from unrestricted net assets into net periodic benefit cost in 2018 aggregate to an accumulated net loss of $507.

(In thousands)

The noncontributory defined benefit retirement plan's investment policy includes the following asset allocation guidelines:

Cash and fixed income	20–45%
Domestic equities	7.5–35%
International equities	5–25%
Hedge funds	5–20%
Real assets	5–15%
Multi-asset	5–20%

The investment strategy of the noncontributory defined benefit retirement plan is to allocate assets among investment classes that will provide for stability and growth of plan assets in varying market environments. To that end, the plan has adopted policies that require each asset class to be diversified and that multiple managers with differing styles of management are employed. On a quarterly basis the plan reviews progress toward achieving its and individual managers' performance objectives. The fair value of the College's defined benefit retirement plan assets by asset class are as follows at June 30:

	2017		
	Level 1	NAV	Total
Cash and fixed income	$ 11,197	—	11,197
Domestic equities	14,713	—	14,713
International equities	—	14,279	14,279
Hedge funds	—	8,763	8,763
Real assets	—	7,597	7,597
Multi-asset	9,917	—	9,917
	$ 35,827	30,639	66,466

	2016		
	Level 1	NAV	Total
Cash and fixed income	$ 11,419	—	11,419
Domestic equities	13,082	—	13,082
International equities	—	11,528	11,528
Hedge funds	—	8,272	8,272
Real assets	—	7,090	7,090
Multi-asset	8,848	—	8,848
	$ 33,349	26,890	60,239

The nonexchange traded investments above are valued using NAV and have daily, monthly or quarterly liquidity with one to thirty day notice requirements.

(In thousands)

(8) Long-Term Debt

Long-term debt consists of the following at June 30:

		2017	2016
Massachusetts Development Finance Agency Revenue Bonds:			
5.25%, 2002 Issue maturing in 2032	$	26,175	26,175
5%, 2007 Issue, Series B maturing serially through 2018		1,945	17,685
Floating Rate Revenue Bonds, 2008 Issue, Series A maturing serially through 2037		36,950	38,040
4.75% – 5%, 2008 Issue, Series B maturing serially through 2026		30,420	33,705
5%, 2016 Issue, Series A maturing serially beginning in 2019 through 2046		35,520	35,520
3 - 5%, 2017 Issue, Series A maturing serially beginning in 2018 through 2023		12,780	—
Commercial taxable borrowing:			
Variable rate amortizing monthly beginning in 2018 with final payment due in 2023		2,500	—
		146,290	151,125
Unamortized premium and issue cost		10,766	10,838
	$	157,056	161,963

Maturities of long-term debt for the fiscal years after June 30, 2017 are as follows:

2018	$	6,520
2019		6,838
2020		7,059
2021		7,129
2022		7,484
Thereafter		111,260
	$	146,290

Interest expense charged to operations was $6,915 and $6,230 in 2017 and 2016, respectively.

The Massachusetts Development Finance Agency Revenue Bonds are tax-exempt issues and are general obligations of the College. The floating or variable rate for the 2008 Issue, Series A is determined on a daily basis by the Remarketing Agent for each rate period to be the lowest rate which in its judgment would permit the sale of the bonds. In the event that the variable rate for the immediately preceding day was not determined by the Remarketing Agent, or in the event that the variable rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such day shall be equal to the SIFMA Index made available for the week preceding the date of determination, or if such index is no longer available, or no such index was so made available for the week preceding the date of determination, 75% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal. The interest rate on the 2008 Issue, Series A bonds may be converted to a fixed rate at the election of the College and upon the satisfaction of certain requirements. The average interest rate was 0.52% and 0.09% in 2017 and 2016, respectively.

In the event that the College receives notice of any optional tender on its variable rate bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the College will have a general obligation to purchase the bonds tendered. The College maintains a direct-pay letter of credit with a commercial bank to provide alternative liquidity to support the repurchase of tendered variable rate bonds in the event that the bonds are unable to be remarketed. Financing obtained through a letter of credit facility to fund the repurchase of the bonds would bear interest rates different from those associated with the original bond issues. The credit facility in effect at June 30, 2017 expires in December 2018.

The College has one interest rate swap agreement related to the 2008 Issue, Series A bonds with a current notional amount of $36,875 that reduces at approximately the same rate as the outstanding principal amount of the bonds. The swap provides for the College to pay a fixed rate of 3.881% in exchange for the financial institution paying a variable rate equal to 68% of 1-month USD-LIBOR on the notional amount. Neither party has an obligation to post collateral with respect to the swap. However, in the event the College’s credit ratings were downgraded below a specified level, the counterparty could elect to terminate the swap which could require a termination payment to the counterparty. The fair value of the liability associated with the swap was $8,453 and $11,966 as of June 30, 2017 and 2016, respectively. Because the swap fair value is based predominantly on observable inputs that are corroborated by market data, it is categorized as Level 2 for purposes of valuation disclosure.

In April 2016, the College issued $35,520 of 2016 Issue, Series A bonds in order to refund a portion of the 2008 Issue, Series B bonds totaling $10,970 and to provide financing for an athletic facility and other capital projects. The proceeds, net of issue costs, from the 2016 Issue, Series A bonds totaled $42,091 from which $12,063 was irrevocably placed with a trustee to meet principal and interest payments on the refunded 2008 Issue, Series B bonds until such time when the bonds may be called. The refunding meets the legal requirements for defeasance of the bond liability. Therefore, neither the escrow nor the refunded bonds are included in the balance sheet at June 30, 2017.

In June 2016, the College entered into a taxable term loan agreement with a commercial bank that allows the College to draw up to $39,000 to fund (i) capital costs in connection with a retreat/contemplative center, (ii) renovation and expansion of athletic facilities, (iii) renovation of existing facilities into a recreation and wellness complex, including fitness facilities, locker rooms and office space and (iv) construction, furnishing and equipping of a performing arts center. The termination date for draws under this term loan is August 2018. Commencing in September 2018, the outstanding principal amount of the term loan shall amortize monthly, based on a 153 month mortgage-style amortization schedule, assuming an interest rate of three percent (3%). The maturity date of the term loan is June 2023. During the draw period of the term loan the applicable interest rate is Daily LIBOR plus 0.49% and thereafter Monthly LIBOR plus 0.49%. During the year ended June 30, 2017, amounts drawn under the term loan totaled $2,500. The average interest rate 1.29% was in 2017. There was no outstanding balance as of June 30, 2016.

(In thousands)

In May 2017, the College issued $12,780 of 2017 Issue, Series A bonds in order to refund a portion of the 2007 Issue, Series B bonds totaling $13,885. The proceeds, net of issue costs, from the 2017 Issue, Series A bonds totaled $14,202 which was irrevocably placed with a trustee to meet principal and interest payments on the refunded 2007 Issue, Series B bonds until such time when the bonds may be called. The refunding meets the legal requirements for defeasance of the bond liability. Therefore, neither the escrow nor the refunded bonds are included in the balance sheet at June 30, 2017.

The College has an unsecured line of credit in the amount of $15,000 with a commercial bank primarily for working capital purposes. The line of credit expires in May 2018 and may be renewed. The line of credit was not utilized during the years ended June 30, 2017or 2016, and has no outstanding balance as of June 30, 2017 or 2016.

(9) Restricted Net Assets

The College’s donor-restricted net assets consist of the following at June 30:

	2017		2016	
	Temporarily restricted	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
Scholarships	$ 119,637	102,028	103,662	99,078
Instruction	72,517	72,275	63,230	70,372
Student services	7,202	8,058	6,713	7,891
Academic support	5,814	5,582	3,975	5,754
Capital	50,911	—	81,681	—
Other	18,616	12,704	15,113	12,774
Annuity agreements	1,059	2,154	1,303	1,963
Total net assets	$ 275,756	202,801	275,677	197,832

The temporarily restricted net assets at June 30, 2017 and 2016 include $201,190 and $170,736, respectively, of appreciation on donor-restricted endowment funds available principally to support scholarships and instruction cost.

(In thousands)

(10) Related-Parties

Members of the College's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the College. The College's conflict of interest policy requires, among other things, that no member of the Board of Trustees or its committees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. For members of the Board of Trustees and senior management, the College requires an annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the College. When such relationships exist, measures are taken to address the actual or perceived conflict to protect the best interests of the College and ensure compliance with relevant conflict of interest laws or policy.

The College has investments in funds where members of the Board of Trustees serve as a manager, director or partner. These investments include limited partnerships that provide investment management services for a portion of the College's absolute return portfolio and several funds for cash and cash equivalents. These investments were made in compliance with the College's conflict of interest policy. As of June 30, 2017, the College held $63,616 in these funds, which are included in the College's long-term investment portfolio and its cash and cash equivalents. The College has no commitment to contribute or invest any additional funds to these investments. The College took measures to mitigate any actual or perceived conflict, including requiring that these transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and in the best interest of the College, and in accordance with applicable conflict of interest laws.

(11) Natural Classification of Expenses

Operating expenses presented by natural classification are as follows for the fiscal years ended June 30:

		2017	2016
Salaries	$	78,401	75,996
Fringe benefits		28,425	28,340
Depreciation		14,903	13,738
Cost of goods sold		6,294	6,580
Interest		6,915	6,230
Utilities		4,921	4,452
Study abroad		5,019	5,090
Travel		4,916	4,716
Library		2,031	1,722
Other operating		23,936	23,790
	$	175,761	170,654

(12) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2017 and through September 29, 2017, the date on which the financial statements were issued.