

Bryn Mawr College

Financial Statements

May 31, 2018 and 2017

Bryn Mawr College
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May 31, 2018 and 2017

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Report of Independent Auditors

To the Board of Managers

We have audited the accompanying financial statements of Bryn Mawr College, which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to Bryn Mawr College'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 Bryn Mawr College'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 Bryn Mawr College as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 8, 2018

Bryn Mawr College
Statements of Financial Position
May 31, 2018 and 2017
(in thousands)

	<u>May 2018</u>	<u>May 2017</u>
Assets:		
Cash & cash equivalents	\$ 49,146	\$ 33,573
Short term investments	5,239	5,154
Accounts receivable (less allowance of \$465 in 2018 & \$337 in 2017)	5,873	4,383
Other current assets	1,640	2,594
Contributions receivable (less allowance of \$3 in 2018 & \$8 in 2017)	22,339	8,056
Student loans receivable (less allowance of \$1,758 in 2018 & \$1,593 in 2017)	3,002	3,129
Deposits with trustees of debt obligations	2,601	8,958
Plant and equipment, net of accumulated depreciation	196,149	194,626
Long term investments	939,850	892,810
	<hr/>	<hr/>
Total assets	<u>\$ 1,225,839</u>	<u>\$ 1,153,283</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 5,954	\$ 4,022
Accrued expenses	6,516	5,848
Student deposits	1,773	1,660
Deferred revenue	2,418	2,184
Annuity obligations	7,291	7,534
Debt	125,366	129,992
Other long-term liabilities	2,769	2,638
Advances from US government for student loans	984	1,463
	<hr/>	<hr/>
Total liabilities	<u>153,071</u>	<u>155,341</u>
Net assets:		
Unrestricted	520,730	481,014
Temporarily restricted	273,265	254,654
Permanently restricted	278,773	262,274
	<hr/>	<hr/>
Total net assets	<u>1,072,768</u>	<u>997,942</u>
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,225,839</u>	<u>\$ 1,153,283</u>

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

Bryn Mawr College
Statement of Activities
Year Ended May 31, 2018
(with comparative totals for 2017, in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Operating revenues:					
Tuition and fees, net of discount of \$35,847	\$ 42,393	\$ -	\$ -	\$ 42,393	\$ 41,656
Private contributions	6,615	19,498		26,113	11,203
Government grants	7,745			7,745	7,637
Endowment payout under spending formula	21,953	23,865		45,818	43,431
Other	5,033			5,033	4,922
Auxiliary enterprises, net of discount of \$1,160	22,859			22,859	23,528
Interest income on cash and short-term investments	1,107			1,107	960
Satisfaction of program restrictions	29,881	(29,881)		-	-
Total operating revenues	137,586	13,482	-	151,068	133,337
Operating expenses:					
Instruction	45,888			45,888	44,601
Research	2,989			2,989	3,421
Public service	1,851			1,851	1,920
Academic support	16,256			16,256	16,908
Student services	12,297			12,297	12,463
Institutional support	21,118			21,118	22,217
Scholarships and fellowships	4,382			4,382	4,367
Auxiliary enterprises	17,293			17,293	17,872
Total operating expenses	122,074	-	-	122,074	123,769
Net changes from operations	15,512	13,482	-	28,994	9,568
Non-operating items:					
Private contributions	11,405	31	15,959	27,395	8,922
Actuarial changes, interest and payments	(515)	(100)	(251)	(866)	(1,502)
Release from restriction	4,362	(4,340)	(22)	-	-
Other	589	-	-	589	(100)
Realized and unrealized gains (losses) on investments, net of \$42,464 appropriated for endowment spending payout	8,363	9,538	813	18,714	41,049
Net changes from non-operating activities	24,204	5,129	16,499	45,832	48,369
Change in net assets	39,716	18,611	16,499	74,826	57,937
Net assets at beginning of year	481,014	254,654	262,274	997,942	940,005
Net assets at end of year	\$ 520,730	\$ 273,265	\$ 278,773	\$ 1,072,768	\$ 997,942

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

Bryn Mawr College
Statement of Activities
Year Ended May 31, 2017
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
Operating revenues:				
Tuition and fees, net of discount of \$35,541	\$ 41,656	\$ -	\$ -	\$ 41,656
Private contributions	6,967	4,236		11,203
Government grants	7,637			7,637
Endowment payout under spending formula	20,846	22,585		43,431
Other	4,922			4,922
Auxiliary enterprises, net of discount of \$1,024	23,528			23,528
Interest income on cash and short-term investments	960			960
Satisfaction of program restrictions	24,387	(24,387)		-
Total operating revenues	130,903	2,434	-	133,337
Operating expenses:				
Instruction	44,601			44,601
Research	3,421			3,421
Public service	1,920			1,920
Academic support	16,908			16,908
Student services	12,463			12,463
Institutional support	22,217			22,217
Scholarships and fellowships	4,367			4,367
Auxiliary enterprises	17,872			17,872
Total operating expenses	123,769	-	-	123,769
Net changes from operations	7,134	2,434	-	9,568
Non-operating items:				
Private contributions	2,968	651	5,303	8,922
Actuarial changes, interest and payments	(869)	(222)	(411)	(1,502)
Release from restrictions	1,283	(1,148)	(135)	-
Other	(100)	-	-	(100)
Realized and unrealized gains (losses) on investments, net of \$41,673 appropriated for endowment spending payout	18,341	21,711	997	41,049
Net changes from non-operating activities	21,623	20,993	5,754	48,369
Change in net assets	28,757	23,427	5,754	57,937
Net assets at beginning of year	452,257	231,228	256,520	940,005
Net assets at end of year	\$ 481,014	\$ 254,655	\$ 262,274	\$ 997,942

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

Bryn Mawr College
Statements of Cash Flows
Years Ended May 31, 2018 and 2017
(in thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 74,826	\$ 57,937
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,316	12,166
Loss on disposal of equipment	238	53
Asset Impairment	-	-
Provision for losses on accounts/loans receivable	295	116
Contributions restricted/designated for long-term investment	(24,637)	(9,723)
Net realized and unrealized (gains)/losses on investments	(61,132)	(82,577)
Other non-operating losses	-	-
Change in net present value of annuities	(243)	438
Change in asset retirement obligation	132	96
Changes in operating assets and liabilities:		
Accounts receivable, inventory and prepaid expenses	(665)	605
Accounts payable, accruals, deferred revenue and deposits	1,135	(968)
Contributions receivable	(14,279)	162
Other	-	-
Net cash used in operating activities	<u>(12,014)</u>	<u>(21,695)</u>
Cash flows from investing activities		
Proceeds from sale of investments	121,814	124,267
Purchase of long-term investments	(107,125)	(92,187)
Payments on student loans and employee mortgages	851	1,647
Student loans and employee mortgages advanced	(1,576)	(2,025)
Purchase of property, plant and equipment	(13,097)	(12,693)
Decrease(increase) in deposits held by trustees of debt obligations	6,356	6,276
Net cash provided by investing activities	<u>7,223</u>	<u>25,285</u>
Cash flows from financing activities		
Contributions restricted or designated for long-term investment	24,637	9,723
Proceeds from long-term borrowing	22,249	-
Debt issuance costs/premium	(1,008)	-
Repayment of debt	(25,035)	(2,905)
Government advance for loans	(479)	(193)
Net cash provided by financing activities	<u>20,364</u>	<u>6,625</u>
Net increase in cash and cash equivalents	15,573	10,215
Cash and cash equivalents at beginning of year	33,573	23,358
Cash and cash equivalents at end of year	<u>\$ 49,146</u>	<u>\$ 33,573</u>
Supplemental data for financing activities:		
Non-cash gifts-in-kind	\$ 10	\$ 3
Interest paid	5,422	5,639
Construction related payables	2,448	637

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

Bryn Mawr College
Notes to the Financial Statements
May 31, 2018 and 2017
(Dollars in thousands)

1. Organization

Bryn Mawr College (the College) is a private institution of higher education founded in 1885 and located in Bryn Mawr, Pennsylvania on an historic and picturesque suburban campus less than ten miles from the downtown center of Philadelphia.

The Undergraduate College offers a four-year, residential experience to approximately 1,450 women representing 48 different states, districts and territories and 58 different countries with an expansive, customizable liberal arts curriculum of over 37 majors and 41 minors. Bryn Mawr was the first women's college to offer graduate education through the Ph.D., defying the limitations imposed on women's intellectual achievement at other institutions of the time. The College continues its support of master and doctoral programs via its Graduate School of Arts and Sciences and its Graduate School of Social Work and Social Research. Both graduate schools are coeducational and their full-time equivalent enrollment was 276 in academic year 2017-2018.

2. Summary of Significant Accounting Policies

Basis of Presentation

The College's financial statements have been prepared on an accrual basis and in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Permanently restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. These donor-imposed restrictions neither expire by the passage of time nor can they be otherwise removed by the College. Generally, the donors of these assets permit the College to spend all or part of the investment return of these assets.

Temporarily restricted: Net assets whose use by the College is subject to donor-imposed restrictions that can be fulfilled by actions of the College in compliance with those restrictions or by the passage of time. Realized and unrealized gains and losses on the permanently restricted endowment and current spendable contributions (non-endowment) with donor-imposed restrictions are reported as temporarily restricted. Such net assets are reclassified to unrestricted net assets when the donor-imposed restrictions have been met.

Unrestricted: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees ("Quasi Endowment") or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in unrestricted net assets. Expirations or changes in donor-imposed stipulations are reported as satisfaction of program restrictions and treated as reclassifications between the applicable classes of net assets.

Use of Estimates

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

Bryn Mawr College
Notes to the Financial Statements
May 31, 2018 and 2017
(Dollars in thousands)

Cash and Cash Equivalents

Cash and other investments with a maturity of three months or less at the time of purchase are reported as cash equivalents. Cash and cash equivalents representing assets of the endowment and similar funds are included in long-term investments.

Contributions Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received at their net present value, less an allowance for estimated uncollectible amounts.

Fair Value of Financial Instruments

The College's investments and other financial instruments are reported at fair value. 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. Investments are then classified and disclosed in one of the following categories based on the lowest level input that is significant to the fair value measurement in its entirety:

- Level I – Quoted prices in active markets for identical assets or liabilities, at the reporting date, without adjustment. Market price is data generally obtained from relevant exchange or dealer markets.
- Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.
- Level III – Pricing inputs are unobservable for the investment and includes situations where a) there is minimal, if any, market activity for the investment and b) the inputs used in determination of fair value require significant management judgment or estimation.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. The College considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the College's perceived risk of that instrument.

Assets and liabilities are disclosed in the Notes to Financial Statements within the hierarchy based on the lowest (or least observable) input that is significant to the measurement. The College's assessment of the significance of an input requires judgment, which may affect the valuation and categorization within the fair value hierarchy.

The College performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or net asset value (NAV) provided to ensure conformity with US Generally Accepted Accounting Principles (GAAP). The College has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem NAV at the measurement date and existence of certain redemption restrictions at the measurement date.

Bryn Mawr College
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Cash and Equivalents

The carrying amount approximates fair value because of the short maturity of these instruments.

Short-Term Investments

Short-term investments include cash equivalents and fixed income mutual funds with maturities between three and twelve months. These short-term investments are valued using observable market data to the degree that they can be valued based on quoted market prices in active markets.

Equity Funds

Equity investments consist of separate accounts, daily traded mutual funds, commingled funds and limited partnerships. Securities held in separate accounts and daily traded mutual funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets with no valuation adjustment applied. Commingled funds and limited partnership interests are valued at NAV.

Real Assets

Real assets primarily represent real estate, commodity and energy related interests held through limited partnerships. The fund managers invest primarily in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These investments are valued at NAV and adjusted for subsequent cash flow activity if applicable.

Private Equity

Investments in private equity are in the form of limited partnership interests. The fund managers invest primarily in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV and adjusted for subsequent cash flow activity if applicable.

Hedge Funds

Investments in hedge funds, also known as marketable alternatives, represent multi-strategy, global and US equity interests. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These investments are valued at NAV and adjusted for subsequent cash flow activity if applicable.

Trust and Split Interest Agreements

Split interest agreements represent a variety of funds including pooled growth, pooled income, charitable gift annuity, charitable remainder unitrust and annuity trusts and income trusts. Where the College is trustee, liabilities associated with third party interests are reported on the Statement of Financial Position at fair value. Discount rates range between 3-6%. The College is the beneficiary of Trusts held by others. These are income trusts where the College will receive income payments in perpetuity or a defined term as defined in the trust. Beneficial interest in perpetual trusts represent resources neither in the possession of nor under the control of the College, but held and administered by outside fiscal agents, with the College deriving income from such funds. The trusts are recorded at their respective fair values which are reported periodically to the College by the outside fiscal agent.

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Mortgages

The College's Mortgage Loan program is currently available to faculty who meet certain eligibility requirements and permits long-term monthly amortizing first mortgage loans of up to 85% of the appraised value (subject to a cap) for homes which are within a specified distance of campus. Mortgages are to be paid off in full within six months of termination of employment for any reason. The interest rate on such mortgage loans is locked for the term of the mortgage using the long-term monthly Applicable Federal Rate published by the Internal Revenue Service. Mortgage payments are by payroll deduction. Currently, there are no associated allowances for the receivables held under this program. The College has limited the number of faculty mortgages it issues to five during each calendar year.

Student Loan Receivables

Determination of the fair value of student loan receivables, which are primarily federally-sponsored student loans with U.S. Government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs. These receivables are reported at cost.

Endowment Investment and Spending Policies and Objectives

The College's endowment is comprised of approximately 1,350 individual funds established for a variety of reasons, including donor restrictions as well as funds designated by the Board to function as endowments (i.e. the quasi-endowment). Bryn Mawr's investment policy goal is primarily to maintain the purchasing power of the endowment and secondarily, to increase the portion of the College's operating budget that comes from endowment over time. The College utilizes a highly diversified investment portfolio to reduce the risk and increase the return over a full market cycle.

In determining the annual spending amount, Bryn Mawr College's policy uses a constant growth factor in combination with incremental spending from new gifts and a market-value-based collar. The spending amount for a given fiscal year is calculated using a 4.5% increase over the prior fiscal year's spending amount plus 5% of new gifts that were received in the most recently closed fiscal year. The draw amount is then tested against the set collar: a floor or minimum draw amount of 4.5% of the trailing three-year average of the fiscal year-end market values and a ceiling or maximum draw amount of 5.5% of the same trailing three-year average of the fiscal year-end market values.

Commonwealth of Pennsylvania law (Act 141) permits the College to allocate to income each year a portion of endowment net realized gains. In accordance with the law, the College spends between 2% and 7% of the fair market value of the endowment funds, averaged over a period of three or more preceding years.

New Accounting Standards

In May 2014, the FASB issued a standard of Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is

Bryn Mawr College
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effective for fiscal years beginning after December 15, 2017. Management is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2019.

In February 2016, the FASB issued a standard on Leases. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases with terms in excess of 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease will primarily depend on its classification as a finance or operating lease. The accounting by lessors remains largely unchanged. This standard is effective for fiscal years beginning after December 15, 2018. Management is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2020.

In August 2016, the FASB issued a standard on the Presentation of Financial Statements of Not-for-Profit Entities. The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other users. The standard is effective for fiscal years beginning after December 15, 2017. College management is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2019.

In June 2018, the FASB issued an amendment to the Topic 958, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard provides specific guidance on evaluating whether gifts and grants should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and whether a contribution is conditional. This standard will be applied for fiscal years beginning after June 15, 2018. The College will adopt this standard for the Fiscal Year 2020 and does not expect this standard will have a material impact on the private gift and government grants recognized in the Statement of Activities.

Plant and Equipment

Plant assets are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows: building shell (60 years); building systems, renovations and land improvements (20-25 years); information systems, equipment and furnishings (5-10 years); and library books (20 years). Depreciation expense is allocated to functional categories in the statement of operations based on building square footage. Expenditures for new construction, major renovations, equipment, and library acquisitions are capitalized. Gains or losses on the sale or retirement of plant assets are recorded in the year of disposition.

Works of art, special collections and similar assets have been capitalized at their estimated fair value at the date of acquisition, based upon appraisals or similar valuations. Such assets are not depreciated.

Long-lived assets to be held and used are reviewed for impairments whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable.

Deferred Revenue

Revenues received prior to the end of the fiscal year which relate to the following fiscal year are recorded and reflected in student deposits and deferred revenue.

Deposit with Trustees

Deposits with the trustee associated with the College's debt obligations are invested in cash, money market and various government securities according to the requirements established by the associated bond agreements.

Bryn Mawr College
Notes to the Financial Statements
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(Dollars in thousands)

Fund Raising Expenses

Direct expenses for fundraising were \$4,540 in 2018 and \$5,005 in 2017.

Tax Status

The College has been granted tax-exempt status as a non-profit organization under Section 501(c) (3) of the Internal Revenue Code, and accordingly, files annually federal tax Form 990 (Return of Organization Exempt from Income Tax). The College also files federal tax Form 990-T (Exempt Organizations Business Income Tax Return). The College monitors and evaluates its activities for unrelated business income.

The Tax Cuts and Jobs Act (the “Act”) was enacted on December 22, 2017. The Act impacts the College in several ways, including a new excise tax on net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21% and eliminates the ability to advance refund tax-exempt debt. The overall impact of the Act remains uncertain, and the full impact of the Act will not be known until further regulatory guidance is provided to assist the College with calculating income and excise tax liabilities. The College continues to evaluate the impact of tax reform on the organization.

Other Assets

Other assets include prepaid expenses and inventory which is valued at the lower of cost or market.

Reclassifications

Certain amounts in the prior year may have been reclassified to conform to the current year presentation.

3. Contributions Receivable

Contributions receivable consisted of the following at May 31. The discount rates applied to new pledges was 4.3% at May 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Contributions receivable in:		
Less than one year	\$ 87	\$ 113
One to five years	25,614	8,945
More than five years	1	3
	<u>25,702</u>	<u>9,061</u>
Less allowance for doubtful contributions	(3)	(8)
Less discount to present value	<u>(3,360)</u>	<u>(997)</u>
Contributions receivable	<u>\$ 22,339</u>	<u>\$ 8,056</u>

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4. Property, Plant and Equipment

At May 31 property, plant and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 7,783	\$ 7,696
Buildings and fixed equipment	303,827	300,536
Information systems	5,960	5,834
Equipment and library books	50,387	49,962
Fine arts and special collections	5,705	5,455
Construction in progress	15,934	5,443
	<u>389,596</u>	<u>374,926</u>
Accumulated depreciation	<u>(193,447)</u>	<u>(180,300)</u>
Net property, plant, and equipment	<u>\$ 196,149</u>	<u>\$ 194,626</u>

Depreciation expense was \$13,207 and \$12,933 at May 31, 2018 and 2017, respectively.

5. Long Term Investments

Endowment and similar funds are classified as long-term investments and include the College's permanent endowment funds, term endowment funds, and quasi-endowment funds. Quasi-endowment funds have been established by the Board of Trustees for the same purposes as endowment funds; however, quasi-endowment funds may be expended in their entirety at the discretion of the Board.

Annuity, life income, and trust agreements are also classified as long-term investments. The College pays periodically either the income earned or a fixed percentage of the assets to the beneficiary designated by the donor. Upon termination of an annuity, life income, or trust agreement the College's remainder interest in the assets is available for use by the College as restricted by the donor or designated by the Board of Trustees. The College has recorded an accrued liability and deferred revenue of \$7,291 at May 31, 2018 and \$7,534 at May 31, 2017 representing gift annuities payable and pooled income fund liabilities.

Long-term investments include outstanding balances on residential mortgages held for eligible employees. The outstanding balances amounted to \$5,858 and \$5,176 as of May 31, 2018 and 2017, respectively. The mortgage portfolio's 3.7% average interest rate approximates the market rates and the assets are fully collateralized with a zero deficiency and default rate. Also included is a payable balance related to a sale of investments of \$516 and (\$430) as of May 31, 2018 and 2018, respectively.

Certain investments that are measured at fair value using the net asset value per share or its equivalent (NAV) as a practical expedient for fair value have been categorized separately.

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A summary of investments, measured at fair value in accordance with the *Fair Value Measurements* standard on a recurring basis, as of May 31, 2018 and 2017, is as follows:

	2018				
	Level 1	Level II	Level III	NAV	Total
Endowment					
Cash and cash equivalents	\$ 32,401	\$ -	\$ -	\$ -	\$ 32,401
Equity funds					
Domestic	76,821	11,758	-	-	88,579
Global	-	227,901	-	-	227,901
Fixed Income funds (domestic)	-	72,876	-	-	72,876
Real Assets	-	-	-	106,896	106,896
Private Equity					
Buyout	-	-	-	14,826	14,826
Venture capital	-	-	-	68,654	68,654
Other	-	-	-	105,766	105,766
Hedge funds					
Global equity	-	-	-	30,392	30,392
Developed international	-	-	-	14,812	14,812
Multi-strategy	-	-	-	108,752	108,752
U.S. equity (long/short and event driven)	-	-	-	25,381	25,381
Total endowment	\$ 109,222	\$ 312,535	\$ -	\$ 475,479	\$ 897,236
Trusts	12,222	-	24,534	-	36,756
Residential mortgages	-	5,858	-	-	5,858
Subtotal Long Term Investments	\$ 121,444	\$ 318,393	\$ 24,534	475,479	939,850
Short Term Investments (Fixed Income)	420	4,819	-	-	5,239
Total Investments	\$ 121,864	\$ 323,212	\$ 24,534	\$ 475,479	\$ 945,089

	2017				
	Level 1	Level II	Level III	NAV	Total
Endowment					
Cash and cash equivalents	\$ 40,939	\$ -	\$ -	\$ -	\$ 40,939
Equity funds					
Domestic	67,182	8,701	-	-	75,883
Global	-	201,120	-	-	201,120
Fixed Income funds (domestic)	-	72,972	-	-	72,972
Real Assets	-	-	-	107,455	107,455
Private Equity					
Buyout	-	-	-	11,466	11,466
Venture capital	-	-	-	69,448	69,448
Other	-	-	-	86,229	86,229
Hedge funds					
Global equity	-	-	-	16,764	16,764
Developed international	-	-	-	12,767	12,767
Multi-strategy	-	-	-	131,236	131,236
U.S. equity (long/short and event driven)	-	-	-	26,464	26,464
Total endowment	\$ 108,121	\$ 282,793	\$ -	\$ 461,829	\$ 852,743
Trusts	12,016	-	22,875	-	34,891
Residential mortgages	-	5,176	-	-	5,176
Subtotal Long Term Investments	\$ 120,137	\$ 287,969	\$ 22,875	\$ 461,829	\$ 892,810
Short Term Investments (Fixed Income)	238	4,916	-	-	5,154
Total Investments	\$ 120,375	\$ 292,885	\$ 22,875	\$ 461,829	\$ 897,964

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Changes to the reported amounts of investments measured at fair value on a recurring basis listing Level III (unobservable) inputs as of May 31 are as follows:

	<u>Trusts</u>		<u>Trusts</u>
Balance, May 31, 2017	\$ 22,875	Balance, May 31, 2016	\$ 22,486
Purchases, sales and settlements	1,089	Purchases, sales and settlements	(405)
Net interest, dividends, fees	139	Net interest, dividends, fees	128
Net distributions	(369)	Net distributions	(355)
Net change in realized/unrealized gains (losses)	<u>800</u>	Net change in realized/unrealized gains (losses)	<u>1,021</u>
Balance, May 31, 2018	<u>\$ 24,534</u>	Balance, May 31, 2017	<u>\$ 22,875</u>

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of May 31, 2018 and 2017 there were no transfers between Levels I, II, or III.

The realized and unrealized gains and losses of the Level III investments for fiscal years 2018 and 2017 are included in realized and unrealized gains (losses) on investments in the Non-operating section of the Statement of Activities. Realized and unrealized gains (losses) of \$800 and \$1,021 are attributable to the trusts for 2018 and 2017 respectively.

Deposits with trustees of debt obligations of \$2,601 and \$8,958 as of May 31, 2018 and 2017, respectively, are considered Level II investments.

Liquidity risk is the risk that the College will not be able to meet its obligations due to restrictions on ability to redeem investments. The College has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that limit its ability to initiate redemptions due to notice periods, lock-ups, side-pocket investments and investment periods. Of the College's investments, approximately 52%, or \$488,417, are redeemable within 6 months and approximately 58%, or \$549,091, are redeemable within one year. The College closely monitors liquidity and has approximately \$30,000 available in credit lines.

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Details on current redemption terms and restrictions by asset class and type of investment are provided below. Standard redemption notices are between 30 and 60 days.

Liquidity of Investments	Value
1 to 7 days	
Cash and cash equivalents	\$ 32,401
Equity (domestic & international)	94,488
Fixed income (domestic)	5,239
	<u>132,128</u>
1 week and 1 month	
Equity (domestic and international)	57,458
Fixed income (domestic)	72,876
Hedge funds	
Developed international	14,781
	<u>145,115</u>
1 to 3 months	
Equity (domestic and international)	164,535
Hedge funds	
Multi-strategy	2,174
U.S. equity (long/short and event driven)	888
	<u>167,597</u>
3 to 6 months	
Hedge funds	
Multi-strategy	29,993
U.S. equity (long/short and event driven)	13,584
	<u>43,577</u>
6 months to 1 year	
Hedge funds	
Global equity (long/short)	1,436
Multi-strategy	59,238
	<u>60,724</u>
Greater than 1 year	
Hedge funds	
Global equity (long/short)	15,740
Multi-strategy	30,562
U.S. equity (long/short and event driven)	10,909
Developed international	31
Real assets	106,896
Residential mortgages	5,858
Private equity	189,246
Trusts	36,756
	<u>395,998</u>
Total	<u>\$ 945,089</u>

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Investment activity for 2018 and 2017 is as follows:

	Endowment & Similar Funds	Gift Annuities And Trusts	Trusts Held By Others	2018	2017
Investments at beginning of year	\$ 852,743	\$ 28,042	\$ 6,848	\$ 887,633	\$ 837,186
Contributions restricted by donor	11,572	1,729	-	13,301	6,867
Contributions designated for long-term investment	11,336	-	-	11,336	2,856
Payout returned to long-term investment	519	-	-	519	473
Other increases	4,048	-	-	4,048	1,255
	<u>880,218</u>	<u>29,771</u>	<u>6,848</u>	<u>916,837</u>	<u>848,637</u>
Investment returns net of expenses of \$9,071 in 2018 and \$8,254 in 2017					
Investment dividends and interest	3,357	-	-	3,357	1,787
Realized/unrealized gains/(losses)	59,479	1,475	217	61,171	82,693
	<u>62,836</u>	<u>1,475</u>	<u>217</u>	<u>64,528</u>	<u>84,480</u>
Endowment spending payout	<u>(45,818)</u>	<u>-</u>	<u>-</u>	<u>(45,818)</u>	<u>(43,431)</u>
	17,018	1,475	217	18,710	41,049
Annuity and trust income	-	278	-	278	277
Payments to annuitants and trust expenses	-	(1,386)	-	(1,386)	(1,340)
Maturities of annuities	-	(447)	-	(447)	(989)
Investments at end of year	<u>\$ 897,236</u>	<u>\$ 29,691</u>	<u>\$ 7,065</u>	<u>\$ 933,992</u>	<u>\$ 887,634</u>

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6. Debt

Long-term debt, net of unamortized issuance costs, discounts, or premiums at May 31, consisted of the following:

	Maturity Date	Coupon Rates	2018	2017
Montgomery County Industrial Development Authority				
College Revenue Bonds, Series 2017 Pennsylvania Higher Educational Facilities Authority	12/1/2037	3.25-5%	\$ 21,776	\$ -
College Revenue Bonds, Series 2014 Pennsylvania Higher Educational Facilities Authority	12/1/2044	3.0-5.0%	54,643	55,924
College Revenue Bonds, Series 2012A Pennsylvania Higher Educational Facilities Authority	12/1/2022	4.00%	13,988	14,210
College Revenue Bonds, Series 2010A Pennsylvania Higher Educational Facilities Authority	12/1/2019	4.0-5.0%	24,165	25,580
College Revenue Bonds, Series 2010 Pennsylvania Higher Educational Facilities Authority	12/1/2029	3.0-5.0%	10,794	11,496
College Revenue Bonds, Series 2007	12/1/2037	5.00%	-	22,782
			<u>\$ 125,366</u>	<u>\$ 129,992</u>

Principal payments on long-term debt are as follows:

	Series 2017	Series 2014	Series 2012A	Series 2010A	Series 2010	Total
2019	\$ -	\$ 1,145	\$ -	\$ 1,105	\$ 715	\$ 2,965
2020	-	1,195	-	22,360	745	24,300
2021	-	1,250	-	-	780	2,030
2022	-	1,320	-	-	815	2,135
2023	-	1,385	13,100	-	840	15,325
Thereafter	20,335	43,750	-	-	6,815	<u>70,900</u>
Total principal payments						117,655
Net bond premiums, discount, and issuance costs						<u>7,711</u>
Total outstanding debt						<u>\$ 125,366</u>

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The long-term debt includes various tax-exempt bond issues. All of the bonds bear interest at fixed rates that were determined on their original sale date. Interest is payable semi-annually. The bonds were issued by the Pennsylvania Higher Educational Facilities Authority or by the Montgomery County Industrial Development Authority, as noted on the schedule above, pursuant to indentures with bond trustees. The proceeds were loaned to the College via loan agreements. For the purpose of securing the payments to bondholders, the College pledged in these agreements its unrestricted revenues. In addition, under the terms of the agreements, the College is required to comply with various financial covenants. The College was in compliance with such covenants as of May 31, 2018 and May 31, 2017.

In May 2010, the College issued the Series 2010 bonds primarily to currently refinance the Series 1999 bond issue.

In November 2010, the College issued the Series 2010A bonds primarily to refinance a portion of the Series 2002 bond issue.

In November 2012, the College issued the Series 2012A bonds primarily to currently refinance the remainder of the Series 2002 bond issue. There was also approximately \$5,000 of proceeds used for the construction, improvement, renovation and equipping of various College facilities.

In July 2014, the College issued the Series 2014 bonds to refinance a portion of the Series 2012 bond issue and to fund various construction, improvement, renovation and equipping projects expected to include the renovation and expansion of a student residential facility and the College's primary science facility. The Series 2014 Bonds legally defeased \$21,780 of the outstanding Series 2012 Bonds.

In June 2017, the College issued the Series 2017 bonds primarily to currently refinance the Series 2007 bond issue.

7. Net Assets

Net assets at May 31, 2018 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current funds	\$ 9,647	\$ 25,798	\$ -	\$ 35,445
Loan funds	538	77	-	615
Endowment and similar funds				
True endowment	-	234,566	257,191	491,757
Quasi-endowment	407,342	4,378	-	411,720
Term endowment	-	1,794	-	1,794
Annuities and trusts	3,056	4,827	21,582	29,465
Plant funds				
Unexpended plant	32,132	-	-	32,132
Capital projects	-	1,825	-	1,825
Net investment in plant	68,015	-	-	68,015
Total	\$ 520,730	\$ 273,265	\$ 278,773	\$ 1,072,768

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Net assets at May 31, 2017 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current funds	\$ 1,420	\$ 13,910	\$ -	\$ 15,330
Loan funds	538	108	-	646
Endowment and similar funds				
True endowment	-	225,307	242,674	467,981
Quasi-endowment	380,650	7,659	-	388,309
Term endowment	-	1,731	-	1,731
Annuities and trusts	2,959	4,798	19,600	27,357
Plant funds				
Unexpended plant	26,252	-	-	26,252
Capital projects	-	1,141	-	1,141
Net investment in plant	69,195	-	-	69,195
Total	\$ 481,014	\$ 254,654	\$ 262,274	\$ 997,942

Changes to the reported amount of the College's endowment net assets as of May 31 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, May 31, 2017	\$ 380,650	\$ 234,697	\$ 242,674	\$ 858,021
Investment return:				
Investment income	1,509	1,844	4	3,357
Net appreciation/(depreciation), realized and unrealized	26,756	32,705	18	59,479
Total investment return	28,265	34,549	22	62,836
New gifts	11,305	31	14,329	25,665
Appropriation of endowment assets for spending	(20,646)	(25,172)	-	(45,818)
Transfers	7,768	(3,368)	167	4,567
Net assets, May 31, 2018	\$ 407,342	\$ 240,737	\$ 257,192	\$ 905,271

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, May 31, 2016	\$ 359,850	\$ 212,410	\$ 237,718	\$ 809,978
Investment return:				
Investment income	806	979	-	1,785
Net appreciation/(depreciation), realized and unrealized	36,182	44,317	14	80,513
Total investment return	36,988	45,296	14	82,298
New gifts	2,197	651	4,599	7,447
Appropriation of endowment assets for spending	(19,604)	(23,827)	-	(43,431)
Transfers	1,219	167	343	1,729
Net assets, May 31, 2017	<u>\$ 380,650</u>	<u>\$ 234,697</u>	<u>\$ 242,674</u>	<u>\$ 858,021</u>

The aggregate amount of all donor-related endowment funds for which the fair value of assets at May 31 is less than the level required by donor stipulations was \$180 in 2018 and \$565 in 2017.

8. Employee Retirement Benefits

Eligible faculty, administration, and staff are provided retirement benefits under the College's defined contribution retirement program administered by Transamerica Retirement Solutions. The participants' contributions, which are permitted but not required, are fully vested, and the College funds its contributions to the plan on an ongoing basis. There are no unfunded benefits. The College's expense for the program was \$4,694 in 2018 and \$4,775 in 2017.

9. Commitments and Contingencies

Certain of the College's long-term investments involve future cash commitments which total approximately \$183,464 at May 31, 2018.

The College has outstanding construction contracts totaling approximately \$20,840. Completion of these projects is estimated to extend through December 2020.

The College is a defendant in various legal actions. While the final amount of these claims cannot be determined at this time, management does not expect that the resolution of the outstanding claims and litigation will have a material adverse effect upon the College's financial position.

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10. Expenses by Natural Classifications

Expenses were incurred in the following categories for the years ended May 31:

	<u>2018</u>	<u>2017</u>
Salaries and wages	52,894	52,790
Benefits	17,451	18,066
Scholarships and fellowships	4,382	4,367
Services and contracting	15,189	16,212
Supplies and minor equipment	4,428	3,596
Travel and entertainment	3,350	4,003
Auxiliaries' cost of goods sold	2,878	3,069
Utilities	2,308	2,409
Insurance	732	737
Depreciation	13,207	12,933
Interest	5,255	5,587
Total	<u>122,074</u>	<u>123,769</u>

11. Line of Credit

The College has access to lines of credit with two banks, with varying terms, through which \$15,000 may be borrowed from each bank. One line of credit commitment is currently scheduled to expire on June 30, 2019, and the other on February 1, 2021. As of May 31, 2018 and May 31, 2017 there was no outstanding balance on either line of credit.

12. Subsequent Events

The College evaluated subsequent events after the balance sheet date of May 31, 2018 through its distribution date of October 8, 2018. No subsequent events were noted during this period.