KPMG

COLLEGE OF THE HOLY CROSS

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors’ Report Thereon)

COLLEGE OF THE HOLY CROSS

Financial Statements

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Trustees
College of the Holy Cross:

We have audited the accompanying financial statements of College of the Holy Cross, which comprise the balance sheets as of June 30, 2019 and 2018, 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 College of the Holy Cross as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2(n) to the financial statements, during the year ended June 30, 2019, the College of the Holy Cross adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

September 25, 2019

COLLEGE OF THE HOLY CROSS

Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	41,491	19,391
Short-term investments		26,063	25,386
Contributions receivable, net		74,404	78,897
Accounts and loans receivable, net		7,116	7,411
Long-term investments		793,377	791,084
Land, buildings and equipment, net		307,957	304,690
Other assets		6,963	6,233
Total assets	$	1,257,371	1,233,092
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	30,993	31,850
Deferred revenue and student deposits		3,463	4,088
U.S. Government refundable advances		4,970	4,892
Split-interest obligations		3,871	3,980
Accrued pension obligation		9,075	580
Interest rate swap		8,181	6,330
Long-term debt		159,825	154,852
Total liabilities		220,378	206,572
Net assets:			
Without donor restrictions		506,039	512,053
With donor restrictions		530,954	514,467
Total net assets		1,036,993	1,026,520
Total liabilities and net assets	$	1,257,371	1,233,092

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statement of Activities

Year ended June 30, 2019

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Operating revenues:			
Tuition and fees, net of financial aid of $63,778	$ 100,601	—	100,601
Residence and dining fees, net of financial aid of $2,332	35,625	—	35,625
Student revenue	136,226	—	136,226
Contributions – annual fund	8,926	—	8,926
Other auxiliary enterprises	10,800	—	10,800
Other revenues	4,870	—	4,870
Operating revenues before nonoperating net assets used in operations	160,822	—	160,822
Nonoperating net assets used in operations:			
Long-term investment income used in operations	30,414	—	30,414
Restricted and designated net assets used in operations	9,437	—	9,437
Total operating revenues	200,673	—	200,673
Operating expenses:			
Salaries and wages	84,400	—	84,400
Employee benefits	29,010	—	29,010
Supplies, services and other	55,406	—	55,406
Depreciation	17,441	—	17,441
Borrowing costs	5,472	—	5,472
Total operating expenses	191,729	—	191,729
Increase in net assets from operations	8,944	—	8,944
Nonoperating:			
Contributions	688	24,615	25,303
Net return on long-term investments	12,018	13,846	25,864
Net loss on interest rate swap	(1,851)	—	(1,851)
Nonoperating net assets used in operations	(39,851)	—	(39,851)
Net assets released from restrictions	22,329	(22,329)	—
Pension related changes, other than net periodic benefit cost	(8,887)	—	(8,887)
Other changes, net	596	355	951
Increase (decrease) in net assets from nonoperating activities	(14,958)	16,487	1,529
Increase (decrease) in net assets	(6,014)	16,487	10,473
Net assets, beginning of year	512,053	514,467	1,026,520
Net assets, end of year	$ 506,039	530,954	1,036,993

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statement of Activities

Year ended June 30, 2018

(In thousands)

		Without donor restrictions	With donor restrictions	Total
Operating revenues:				
Tuition and fees, net of financial aid of $59,243	$	95,066	—	95,066
Residence and dining fees, net of financial aid of $2,172		33,083	—	33,083
Student revenue		128,149	—	128,149
Contributions – annual fund		8,476	—	8,476
Other auxiliary enterprises		11,304	—	11,304
Other revenues		4,626	—	4,626
Operating revenues before nonoperating net assets used in operations		152,555	—	152,555
Nonoperating net assets used in operations:				
Long-term investment income used in operations		29,215	—	29,215
Restricted and designated net assets used in operations		9,980	—	9,980
Total operating revenues		191,750	—	191,750
Operating expenses:				
Salaries and wages		80,668	—	80,668
Employee benefits		28,553	—	28,553
Supplies, services and other		50,731	—	50,731
Depreciation		17,489	—	17,489
Borrowing costs		5,483	—	5,483
Total operating expenses		182,924	—	182,924
Increase in net assets from operations		8,826	—	8,826
Nonoperating:				
Contributions		1,323	37,864	39,187
Net return on long-term investments		25,307	28,497	53,804
Net gain on interest rate swap		2,123	—	2,123
Nonoperating net assets used in operations		(39,195)	—	(39,195)
Net assets released from restrictions		68,563	(68,563)	—
Pension related changes, other than net periodic benefit cost		3,423	—	3,423
Gain on debt defeasance		1,658	—	1,658
Other changes, net		860	350	1,210
Increase (decrease) in net assets from nonoperating activities		64,062	(1,852)	62,210
Increase (decrease) in net assets		72,888	(1,852)	71,036
Net assets, beginning of year, as restated		439,165	516,319	955,484
Net assets, end of year	$	512,053	514,467	1,026,520

See accompanying notes to financial statements.

COLLEGE OF THE HOLY CROSS

Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	10,473	71,036
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and accretion		16,119	16,147
Net realized and unrealized gains on investments		(26,492)	(54,182)
Contributions for long-term investment and facilities		(18,193)	(26,247)
Net loss (gain) on interest rate swap		1,851	(2,123)
Pension related changes, other than net periodic benefit cost		8,887	(3,423)
Gain on debt defeasance		—	(1,658)
Decrease (increase) in operating assets, net		3,376	(3,561)
Increase (decrease) in operating liabilities, net		1,000	(2,390)
Net cash used in operating activities		(2,979)	(6,401)
Cash flows from investing activities:			
Net loans repaid by students and others		281	72
Purchase of land, buildings, and equipment, net of construction cost payable		(23,754)	(34,963)
Proceeds from sale of short-term investments		26,591	24,349
Purchase of short-term investments		(26,640)	(24,544)
Proceeds from sale of long-term investments		319,631	753,534
Purchase of long-term investments		(296,060)	(733,817)
Net cash provided by (used in) investing activities		49	(15,369)
Cash flows from financing activities:			
Payments on long-term debt		(6,705)	(6,520)
Payments to trustee on long-term debt defeasance		—	(23,355)
Proceeds from long-term debt, net of issue cost		—	23,841
Proceeds from commercial borrowing		13,000	7,000
Decrease in deposits with bond trustee		—	3
Increase (decrease) in U.S. Government refundable advances		78	(16)
Proceeds from contributions for long-term investment		6,063	8,887
Proceeds from contributions for facilities		12,594	6,123
Net cash provided by financing activities		25,030	15,963
Net increase (decrease) in cash and cash equivalents		22,100	(5,807)
Cash and cash equivalents, beginning of year		19,391	25,198
Cash and cash equivalents, end of year	$	41,491	19,391
Supplemental data:			
Change in accounts payable for land, buildings and equipment	$	(3,046)	(6,596)
Interest paid		6,178	6,895

See accompanying notes to financial statements.

(1) Background

The College of the Holy Cross (the College or Holy Cross), founded in 1843 by the second bishop of Boston, Benedict Joseph Fenwick, S.J., 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 475-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 3,100 students, situated on a 174-acre campus.

(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 (GAAP), 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

Based on the existence or absence of donor-imposed restrictions the College classifies resources into two categories: without donor restrictions and with donor restrictions.

Without donor restrictions – Net assets not subject to donor-imposed stipulations and available for the general operations of the College. This net asset category principally consists of student revenue as well as investment returns on funds designated by the Board of Trustees to function as endowment, certain types of philanthropic support without restriction such as the annual fund and related expenses associated with the core programs of the College.

With donor restrictions – Net assets subject to donor-imposed stipulations that will be met either by actions of the College or the passage of time. Items that affect this net asset category include gifts or unconditional pledges and the related investment returns on donor-restricted endowment funds, gifts or grants for capital assets not yet placed in service, and annuity and life income funds.

The College classifies the following portions of donor-restricted endowment funds as net assets with donor restrictions: (a) the original value of assets contributed to endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, (c) investment return available for appropriation and (d) reinvested earnings on endowment when specified by the donor.

(Continued)

(c) Statements of Activities

The statements of activities report the changes 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 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, the amortization of contributions used to acquire or construct long-lived assets and other nonoperating contributions expended in support of operations or made available for operations by virtue of the expiration of a time restriction.

Nonoperating activities include contributions received other than for the annual fund, investment return on short and long-term investments, contributions and grant income to fund long-lived assets, 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, including the amortization of contributions used for the acquisition or construction of long-lived assets, 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 net assets without donor restrictions unless their use is limited by donor-imposed restrictions as follows:

- Student revenue from education, residence and dining services are reflected net of any institutional student aid and recognized as services are provided. To the extent such aid exceeds a student's tuition and fees, it is applied against residence and dining charges. Revenue from other exchange transactions, including from athletics and certain retail operations, is recognized when goods or services are transferred to customers.
- 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 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.

(Continued)

- Contributions of land, buildings, or equipment are reported as nonoperating support without donor restrictions unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire or construct long-lived assets are reported as a donor restricted gift until the related asset is placed in service, at which time the contribution is released from net assets with donor restrictions to net assets without donor restrictions. These contributions are subsequently amortized into operations over the estimated useful life of the acquired or constructed assets. This amortization, which amounted to $2,395 and $2,105, in fiscal years 2019 and 2018, respectively, is recorded in nonoperating net assets used in operations in the statements of activities.
- Other auxiliary service enterprise revenues include college retail operations, cash dining, catering, intercollegiate athletics and graphic arts.
- Dividends, interest, and net gains on investments of endowments are reported as increases in net assets with donor restrictions if the terms of the gift require that they be added to the principal of an endowment fund or impose restrictions on the current use of the income or net gains; and as increases in net assets without donor restrictions in all other cases.

(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) Land, Buildings, and Equipment

Constructed and purchased property and equipment are initially recorded at cost while property and equipment acquired by gift are initially recorded at estimated fair value. 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.

(h) 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 $4,190 and $3,693 at June 30, 2019 and 2018, respectively, are considered Level 1 in the fair value hierarchy.

(i) Deferred Revenue and Student Deposits

Deferred revenue and student deposits are advance payments and enrollment deposits for the Fall academic term. The deferred revenue is recognized ratably as revenue over the Fall term beginning in August and ending in December as performance obligations are met.

(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). Prior to June 30, 2018, such amounts were loaned to students and re-loaned by the College after collection. Congressional authorization for this program ended in September 2017. The lack of renewal requires the federal share of amounts collected to be returned to the Department of Education as loans are repaid beginning in 2018. In May 2019, the Department of Education announced that it will suspend the requirement to return funds from liquidated loans for one year.

(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.

(Continued)

(In thousands)

(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.

(n) Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 simplifies and enhances the presentation of net assets, requires operating expenses to be reported by both their natural and functional classifications, and expands disclosures regarding liquidity and availability of resources. Additionally, it requires contributions to acquire or construct long-lived assets to be included in net assets with donor restrictions until the asset is placed in service. The ASU is effective for fiscal years beginning after December 15, 2017. A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as follows:

		Without donor restrictions	With donor restrictions	Total net assets
2018 beginning of year net assets, as previously presented:				
Unrestricted	$	476,927	—	476,927
Temporarily restricted		—	275,756	275,756
Permanently restricted		—	202,801	202,801
		476,927	478,557	955,484
Reclassifications to implement ASU 2016-14:				
Contributions for long-lived assets		(37,762)	37,762	—
2018 beginning of year net assets, as reclassified	$	439,165	516,319	955,484
2019 beginning of year net assets, as previously presented:				
Unrestricted	$	520,246	—	520,246
Temporarily restricted		—	296,492	296,492
Permanently restricted		—	209,782	209,782
		520,246	506,274	1,026,520
Reclassifications to implement ASU 2016-14:				
Contributions for long-lived assets		(8,193)	8,193	—
2019 beginning of year net assets, as reclassified	$	512,053	514,467	1,026,520

For the year ended June 30, 2018, the adoption of the standard requires reclassification in the statement of activities, increasing the release of net assets released from restrictions by $29,569, for contributions for long-lived assets placed in service.

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU establishes a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaces most existing revenue recognition guidance in GAAP. The ASU became effective for the College for the year ended June 30, 2019. The College's adoption of the ASU in fiscal year 2019 did not materially change the timing and amount of revenue recognized by the College. The ASU has been applied retrospectively to all periods presented with no effect on net assets or previously issued financial statements.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the College for the year ended June 30, 2019. The College's adoption of the ASU in fiscal year 2019 did not have a material effect on the College's financial statements. The ASU has been applied retrospectively to all periods presented with no effect on net assets or previously issued financial statements.

(o) Reclassifications

Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

(Continued)

(In thousands)

(3) Financial Assets and Liquidity Resources

As of June 30, 2019 and 2018, financial assets and liquidity resources available with one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

		2019	2018
Financial assets:			
Cash and cash equivalents	$	12,155	10,820
Short-term investments		15,291	14,895
Contributions receivable		1,085	1,107
Accounts receivable		487	501
Board-appropriated endowment spending		31,433	30,780
Total financial assets available within one year	$	60,451	58,103

The College's working capital and cash flows have seasonal variations during the year attributable to the timing of student billings and related collections and a concentration of contributions received at calendar and fiscal year end. To manage liquidity, the College actively manages its resources using a combination of short- and long-term investment and borrowing strategies to align its cash inflows with anticipated outflows in accordance with policies approved by the Board of Trustees (the Board).

Additional liquidity resources include commercial taxable borrowing of $26,500 to draw upon when needed to fund construction in advance of scheduled pledge payments and a line of credit of $15,000 for working capital needs. No amounts were drawn from the line of credit during the years ended June 30, 2019 and 2018. Additionally, as of June 30, 2019, the College has $362,238 in funds designated by the Board to function as endowment which can be made available for general expenditure with approval from the Board, subject to investment liquidity provisions, as well as $29,311 in cash and cash equivalents and $10,772 in short-term investments subject to donor restrictions. Funds subject to donor restrictions are an available resource provided those restrictions are met by actions of the College or the passage of time. The College is planning to utilize approximately $24,000 of donor restricted funds for construction projects in the next fiscal year.

(In thousands)

(4) Contributions Receivable

Contributions receivable consist of the following at June 30:

		2019	2018
Unconditional promises expected to be collected in:			
Less than one year	$	19,450	20,064
One to five years		59,170	56,962
Thereafter		2,503	9,554
		81,123	86,580
Less allowances for uncollectible pledges and pledge discounts (0.71%–2.81%)		(6,719)	(7,683)
	$	74,404	78,897

(5) Accounts and Loans Receivable

Accounts and loans receivable at June 30, 2019 and 2018 consist of the following at June 30, 2019 and 2018:

		2019			2018		
		Gross receivable	Allowance for doubtful accounts	Net receivable	Gross receivable	Allowance for doubtful accounts	Net receivable
Federal Perkins Loan program	$	5,878	(300)	5,578	7,048	(300)	6,748
Instiitutional loans		966	(75)	891	—	—	—
Accounts receivable		617	(130)	487	631	(130)	501
Other receivables		160	—	160	162	—	162
	$	7,621	(505)	7,116	7,841	(430)	7,411

Accounts and loans receivable are carried at estimated net realizable value. Management regularly assesses the adequacy of the allowance for doubtful accounts and balances are written off when deemed uncollectible.

The College makes uncollateralized loans to students based on financial need. These loans were funded by the Federal Perkins Loans Program through June 30, 2018.

(6) 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 or its equivalent (NAV) 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

(Continued)

(In thousands)

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.

The following table summarizes the valuation of investments as of June 30, 2019:

	NAV	Level 1	Level 2	Level 3	Total
Short-term investments	$ —	26,063	—	—	26,063
Long-term investments:					
Cash and cash equivalents	—	5,665	—	—	5,665
Fixed income	—	20,755	—	—	20,755
Equities:					
Domestic	119,530	16	—	—	119,546
Emerging markets	49,333	—	—	—	49,333
Global	155,294	23,748	—	—	179,042
Absolute return:					
Global long/short	61,757	—	—	—	61,757
Opportunistic and other	166,675	—	—	—	166,675
Alternative investments:					
Private equity	126,635	—	—	—	126,635
Real assets	55,418	—	—	—	55,418
Other investments	—	619	—	407	1,026
Split-interest agreements	—	4,526	1,492	1,507	7,525
Total long-term investments	734,642	55,329	1,492	1,914	793,377
Total	$ 734,642	81,392	1,492	1,914	819,440

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, 2019:

	Beginning balance	Acquisitions	Dispositions	Net realized and unrealized losses	Ending balance
Other investments	$ 407	—	—	—	407
Split-interest agreements	1,661	—	—	(154)	1,507
	$ 2,068	—	—	(154)	1,914

(Continued)

(In thousands)

The following table summarizes the valuation of investments as of June 30, 2018:

		NAV	Level 1	Level 2	Level 3	Total
Short-term investments	$	—	25,386	—	—	25,386
Long-term investments:						
Cash and cash equivalents		—	10,298	—	—	10,298
Fixed income		—	32,671	—	—	32,671
Equities:						
Domestic		120,669	16	—	—	120,685
Emerging markets		38,471	—	—	—	38,471
Global		183,153	33,807	—	—	216,960
Absolute return:						
Global long/short		52,800	—	—	—	52,800
Opportunistic and other		156,422	—	—	—	156,422
Alternative investments:						
Private equity		93,596	—	—	—	93,596
Real assets		60,278	—	—	—	60,278
Other investments		—	619	—	407	1,026
Split-interest agreements		—	4,910	1,306	1,661	7,877
Total long-term investments		705,389	82,321	1,306	2,068	791,084
Total	$	705,389	107,707	1,306	2,068	816,470

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, 2018:

		Beginning balance	Acquisitions	Dispositions	Net realized and unrealized losses	Ending balance
Other investments	$	407	—	—	—	407
Split-interest agreements		1,661	—	—	—	1,661
	$	2,068	—	—	—	2,068

(In thousands)

(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 $138,170 as of June 30, 2019.

(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, 2019 are categorized based on redemption frequency as follows:

	Daily	Monthly	Quarterly	Annual	Illiquid	Total
Cash equivalents	$ 5,665	—	—	—	—	5,665
Fixed income	20,755	—	—	—	—	20,755
Equities	23,764	103,932	139,671	57,564	22,990	347,921
Absolute return	—	—	52,336	152,682	23,414	228,432
Alternative investments	—	—	—	—	182,053	182,053
Other investments	—	—	—	—	1,026	1,026
Split-interest agreements	—	—	—	—	7,525	7,525
Total	$ 50,184	103,932	192,007	210,246	237,008	793,377

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 $346 of such investments at June 30, 2019 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 $156,613 are subject to side pockets or redemption lock-ups which will expire in April 2021.

(Continued)

(7) Endowment

The College's endowment consists of approximately 850 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. In accordance with appropriate accounting standards, the College classifies as net assets with donor restrictions (a) the original value of gifts donated as an endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted endowment funds which are available for expenditure 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 the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. There were no material deficiencies of this nature as of June 30, 2019 and 2018.

(Continued)

(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 of the College's Board of Trustees (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 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 $30,414 and $29,215 for the years ended June 30, 2019 and 2018, 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:

		2019		
		Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, June 30, 2018	$	363,906	419,301	783,207
Investment return		12,192	14,023	26,215
Contributions		—	5,343	5,343
Transfers designated by board		1,501	—	1,501
Appropriated for expenditure		(15,361)	(15,053)	(30,414)
Endowment net assets, June 30, 2019	$	362,238	423,614	785,852
Composition of endowment net assets:				
Donor-restricted endowment funds	$	—	423,614	423,614
Board-designated endowment funds		362,238	—	362,238
Total endowment net assets	$	362,238	423,614	785,852

		2018		
		Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, June 30, 2017	$	352,382	396,566	748,948
Investment return		25,287	28,483	53,770
Contributions		—	8,396	8,396
Transfers designated by board		1,308	—	1,308
Appropriated for expenditure		(15,071)	(14,144)	(29,215)
Endowment net assets, June 30, 2018	$	363,906	419,301	783,207
Composition of endowment net assets:				
Donor-restricted endowment funds	$	—	419,301	419,301
Board-designated endowment funds		363,906	—	363,906
Total endowment net assets	$	363,906	419,301	783,207

(In thousands)

(8) Land, Buildings, and Equipment

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

	Estimated lives	2019	2018
Land	—	$ 5,862	5,747
Land improvements	20–30	48,438	46,108
Buildings	5–55	456,131	447,465
Equipment and furniture	5–20	71,024	67,926
Construction in progress	—	21,154	14,684
Artwork	—	1,306	1,306
		603,915	583,236
Less accumulated depreciation		(295,958)	(278,546)
		$ 307,957	304,690

(9) 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 $5,783 and $5,547, for the years ended June 30, 2019 and 2018, 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 net assets without donor restrictions.

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:

		2019	2018
Change in benefit obligation:			
Benefit obligation at beginning of year	$	70,008	70,757
Service cost		1,975	1,994
Interest cost		2,977	2,796
Benefits paid		(2,602)	(2,530)
Actuarial loss (gain)		7,170	(3,009)
Benefit obligation at end of year		79,528	70,008
Change in plan assets:			
Fair value of plan assets at beginning of year		69,428	66,466
Actual return on plan assets		2,627	4,492
Employer contribution		1,000	1,000
Benefits paid		(2,602)	(2,530)
Fair value of plan assets at end of year		70,453	69,428
Funded status – net obligation recognized in the balance sheets	$	(9,075)	(580)

The measurement date used to determine pension assets and benefit obligations was June 30, 2019.

	2019	2018
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	3.70 %	4.32 %
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	4.32	4.03
Expected long-term rate of return on plan assets	6.75	7.00
Rate of compensation increase	3.50	3.50

The accumulated benefit obligation was $74,609 at June 30, 2019 and $66,138 at June 30, 2018. The benefits expected to be paid after June 30, 2019 are as follows: $2,961 in 2020, $3,118 in 2021, $3,281 in 2022, $3,449 in 2023, $3,629 in 2024 and aggregate benefits for years 2025 through 2029 are expected to be $20,965. The College plans to make a nonmandatory employer contribution of $1,000 for fiscal year 2020.

(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:

		2019	2018
Components of net periodic benefit cost:			
Service cost – benefits earned	$	1,975	1,994
Interest cost on projected benefit obligation		2,977	2,796
Expected return on plan assets		(4,616)	(4,590)
Amortization of prior service credit		(197)	(197)
Recognized actuarial loss		469	708
Net periodic benefit cost		608	711
Changes recognized in nonoperating activities:			
Net loss (gain) arising during the year		9,159	(2,912)
Amortization of prior service credit		197	197
Recognized actuarial loss		(469)	(708)
Total recognized as nonoperating activities		8,887	(3,423)
Total recognized in the statements of activities	$	9,495	(2,712)

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

		2019	2018
Accumulated net loss	$	(21,074)	(12,384)
Prior service credit		1,879	2,076
Accumulated other nonoperating loss		(19,195)	(10,308)
Accumulated contributions in excess of net periodic benefit cost		10,120	9,728
Net obligation recognized in the balance sheets	$	(9,075)	(580)

The estimated amounts that will be amortized into net periodic benefit cost in 2020 aggregate to an accumulated net loss of $1,087 and prior service credit of $197.

(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:

	2019		
	Level 1	NAV	Total
Cash and fixed income	$ 14,617	—	14,617
Domestic equities	17,036	—	17,036
International equities	1,268	14,739	16,007
Hedge funds	—	9,674	9,674
Real assets	1,446	6,996	8,442
Multi-asset	4,677	—	4,677
	$ 39,044	31,409	70,453

	2018		
	Level 1	NAV	Total
Cash and fixed income	$ 11,425	—	11,425
Domestic equities	14,880	—	14,880
International equities	—	15,171	15,171
Hedge funds	—	9,541	9,541
Real assets	—	8,150	8,150
Multi-asset	10,261	—	10,261
	$ 36,566	32,862	69,428

(In thousands)

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

(10) Long-Term Debt

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

		2019	2018
Massachusetts Development Finance Agency Revenue Bonds:			
5.25%, 2002 Issue maturing in 2032	$	26,175	26,175
Floating Rate Revenue Bonds, 2008 Issue, Series A maturing serially through 2037		34,645	35,820
4.75%–5%, 2008 Issue, Series B maturing serially through 2026		—	3,620
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		10,870	12,780
4–5%, 2018 Issue, Series A maturing serially beginning in 2019 through 2026		21,540	21,540
Commercial taxable borrowing:			
Variable rate amortizing monthly beginning in 2020 with final payment due in 2026		22,500	9,500
		151,250	144,955
Unamortized premium and issue cost, net		8,575	9,897
	$	159,825	154,852

Maturities of long-term debt for the fiscal years after June 30, 2019 are as follows:

2020	$	6,720
2021		7,758
2022		8,332
2023		8,709
2024		9,118
Thereafter		110,613
	$	151,250

Interest expense charged to operations was $6,489 and $6,619 in 2019 and 2018, respectively. Cost of borrowing including interest, commitment fees, premium and bond issue cost amortization was $5,472 and $5,483 in 2019 and 2018, 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 Securities Industry and Financial Markets Association (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 1.43% and 0.97% in 2019 and 2018, 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, 2019 expires in October 2021.

The College has one interest rate swap agreement related to the 2008 Issue, Series A bonds with a current notional amount of $34,600 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 $8,181 and $6,330 as of June 30, 2019 and 2018, 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. The 2008 Issue, Series B bonds were called September 1, 2018.

(In thousands)

In June 2018, the College issued $21,540 of 2018 Issue, Series A bonds in order to refund a portion of the 2008 Issue, Series B bonds totaling $23,355. The proceeds, net of issue costs, from the 2018 Issue, Series A bonds totaled $23,833 which was irrevocably placed with a trustee to meet principal and interest payments on the refunded 2008 Issue, Series B bonds. The refunding meets the legal requirements for defeasance of the bond liability. The 2008 Issue, Series B bonds were called September 1, 2018.

In May 2019, the College amended its taxable term loan agreement with a commercial bank to allow the College to draw up to $49,000 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 September 2020. Commencing in September 2020, the outstanding principal amount of the term loan shall amortize monthly, based on a 180 month mortgage-style amortization schedule, assuming an interest rate of three percent (3%). The maturity date of the term loan is May 2026. The outstanding balance as of June 30, 2019 and 2018 was $22,500 and $9,500, respectively. During the draw period of the term loan the applicable interest rate is Daily London Inter-Bank Offered Rate (LIBOR) plus 0.49% and thereafter Monthly LIBOR plus 0.49%. The average interest rate was 2.84% and 2.07% in 2019 and 2018, respectively.

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 2020 and may be renewed. The line of credit was not utilized during the years ended June 30, 2019 or 2018, and has no outstanding balance as of June 30, 2019 or 2018.

(11) Composition of Net Assets

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

		2019		2018	
		Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Operating	$	141,650	29,782	146,835	13,033
Contributions receivable		—	74,404	—	78,897
Student loan funds		1,503	50	602	50
Endowment funds		362,238	423,614	363,906	419,301
Annuity and life income funds		648	3,104	710	3,186
Total net assets	$	506,039	530,954	512,053	514,467

Endowment funds without donor restrictions is comprised of amounts designated by the Board of Trustees to function as an endowment. Net assets with donor restrictions at June 30, 2019 and 2018 include $214,573 and $215,541, respectively, of appreciation on donor-restricted endowment funds available principally to support scholarships and instruction cost.

(Continued)

(12) 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, 2019, the College held $61,703 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.

(13) Functional Classification of Expenses

The College's primary program service is undergraduate instruction. Expenses reported as academic support, student services, institutional support and auxiliary enterprises are incurred in support of this primary program activity. Expenses associated with the operation and maintenance of the College's plant assets and depreciation are allocated to functional categories based on square footage. Borrowing costs are allocated based on usage of debt-financed space.

Expenses associated with fundraising activities of the College were $9,457 and $9,062 in 2019 and 2018, respectively, and are included in institutional support.

(Continued)

(In thousands)

Expenses by functional classification for years ended June 30 consist of the following:

	2019							
		Instruction	Academic support	Student services	Institutional support	Auxiliary services	Operation and maintenance of plant	Total expenses
Salaries and wages	$	35,462	4,050	14,791	15,390	7,335	7,372	84,400
Employee benefits		12,377	1,288	4,974	5,631	2,090	2,650	29,010
Supplies, services and other		10,146	6,989	8,576	8,281	10,111	11,303	55,406
Depreciation		4,707	699	5,319	1,359	5,357	—	17,441
Borrowing costs		1,887	52	1,873	297	1,363	—	5,472
Operation and maintenance of plant		4,764	1,126	4,486	844	10,105	(21,325)	—
Total operating expenses	$	69,343	14,204	40,019	31,802	36,361	—	191,729

	2018							
		Instruction	Academic support	Student services	Institutional support	Auxiliary services	Operation and maintenance of plant	Total expenses
Salaries and wages	$	33,557	3,824	15,101	14,644	6,285	7,257	80,668
Employee benefits		12,064	1,279	5,022	5,493	2,001	2,694	28,553
Supplies, services and other		10,755	6,660	9,113	5,409	9,212	9,582	50,731
Depreciation		4,693	707	5,610	1,281	5,198	—	17,489
Borrowing costs		2,023	64	1,599	335	1,462	—	5,483
Operation and maintenance of plant		4,366	1,027	4,264	725	9,151	(19,533)	—
Total operating expenses	$	67,458	13,561	40,709	27,887	33,309	—	182,924

(14) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2019 and through September 25, 2019, the date on which the financial statements were issued.