

Financial Statements with Report of
Independent Certified Public Accountants

MERRIMACK COLLEGE

June 30, 2016 and 2015

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Merrimack College as of June 30, 2016 and 2015, 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.

MERRIMACK COLLEGE
Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 19,147,693	\$ 19,988,448
Contributions receivable, net (Note 3)	2,197,219	2,588,595
Accounts and loans receivable, net (Note 6)	3,838,748	2,669,544
Other assets	1,851,990	2,199,744
Investments (Notes 4 and 5)	50,568,448	51,873,862
Deposits with bond trustees (Note 4)	14,106,408	22,556,003
Land, buildings, and equipment, net (Note 7)	<u>108,155,330</u>	<u>101,967,897</u>
Total assets	<u>\$ 199,865,836</u>	<u>\$ 203,844,093</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 11,248,973	\$ 16,376,507
Student deposits and deferred revenue	7,862,300	7,790,379
Debt (Note 8)	86,107,645	87,615,700
Refundable U.S. government grants - for student loans	<u>1,387,545</u>	<u>3,796,888</u>
Total liabilities	<u>106,606,463</u>	<u>115,579,474</u>
NET ASSETS (Note 5)		
Unrestricted	50,708,346	45,618,209
Temporarily restricted (Note 9)	18,281,287	19,012,574
Permanently restricted (Note 10)	<u>24,269,740</u>	<u>23,633,836</u>
Total net assets	93,259,373	

MERRIMACK COLLEGE
Statement of Activities
Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING				
REVENUE				
Tuition and fees	\$ 120,794,212	\$ -	\$ -	\$ 120,794,212
Less scholarship aid to students	<u>(51,570,905)</u>	<u>-</u>	<u>-</u>	<u>(51,570,905)</u>
Tuition and fees, net	69,223,307	-	-	69,223,307
Grant revenues	1,465,745	-	-	1,465,745
Contributions	340,360	2,493,543	-	2,833,903
Endowment income (Notes 4 and 5)	293,563	1,568,665	-	1,862,228
Auxiliary enterprises	30,895,725	-	-	30,895,725
Other revenue	<u>2,033,624</u>	<u>-</u>	<u>-</u>	<u>2,033,624</u>
Total revenues	104,252,324	4,062,208	-	108,314,532
Net assets released from restrictions (Note 11)	<u>2,620,370</u>	<u>(2,620,370)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>106,872,694</u>	<u>1,441,838</u>	<u>-</u>	<u>108,314,532</u>
EXPENSES				
Instruction	33,414,201	-	-	33,414,201
Student services	23,639,688	-	-	23,639,688
Academic support	7,823,238	-	-	7,823,238

MERRIMACK COLLEGE
Statement of Activities
Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING				
REVENUE				
Tuition and fees	\$ 108,341,273	\$ -	\$ -	\$ 108,341,273
Less scholarship aid to students	<u>(45,534,591)</u>	<u>-</u>	<u>-</u>	<u>(45,534,591)</u>
Tuition and fees, net	62,806,682	-	-	62,806,682
Grant revenues	1,247,159	-	-	1,247,159
Contributions	465,757	1,969,325	-	2,435,082
Endowment income (Notes 4 and 5)	477,525	1,384,703	-	1,862,228
Auxiliary enterprises	28,678,450	-	-	28,678,450
Other revenue	<u>1,876,858</u>	<u>-</u>	<u>-</u>	<u>1,876,858</u>
Total revenues	95,552,431	3,354,028	-	98,906,459
Net assets released from restrictions (Note 11)	<u>2,460,126</u>	<u>(2,460,126)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>98,012,557</u>	<u>893,902</u>	<u>-</u>	<u>98,906,459</u>
EXPENSES				
Instruction	30,780,437	-	-	30,780,437
Student services	20,610,182	-	-	20,610,182
Academic support	7,049,066	-	-	7,049,066
Institutional support	16,339,419	-	-	16,339,419
Auxiliary enterprises	<u>16,663,446</u>	<u>-</u>	<u>-</u>	<u>16,663,446</u>
Total expenses	<u>91,442,550</u>	<u>-</u>	<u>-</u>	<u>91,442,550</u>
Change in net assets from operations	<u>6,570,007</u>	893,902		

MERRIMACK COLLEGE
Statements of Cash Flows
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,994,754	\$ 10,890,276
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,230,939	4,830,818
Bond amortization	(87,280)	(99,840)
Provision for doubtful accounts	49,914	286,083
Realized and unrealized (gains) losses on investment	873,943	(611,496)
Contributions received for long-term investment	(731,037)	(3,337,063)
Changes in operating assets and liabilities excluding cash		
Accounts and loans receivable	(1,219,118)	196,823
Contributions receivable	391,376	(183,683)
Other assets	312,511	107,500
Accounts payable and accrued expenses	(1,930,272)	2,209,166
Student deposits and deferred revenue	<u>71,921</u>	<u>(1,096,830)</u>
Net cash provided by operating activities	7,957,651	

MERRIMACK COLLEGE
Notes to Financial Statements
June 30, 2016 and 2015

1. BACKGROUND

Merrimack College is a private, coeducational institution with a Catholic tradition that currently offers undergraduate and graduate courses to over 3,000 undergraduate students and 450 graduate students. Inspired by the Catholic faith and the Augustinian tradition of seeking truth through inquiry and dialogue, the College's vision is to prepare students to adapt creatively to tomorrow's realities through excellence in the liberal arts, sciences, and the professions; build a community of scholars welcoming and respecting a diversity of backgrounds, experiences, beliefs, and perspectives; cultivate the intellectual, moral, spiritual, physical and personal awareness needed to make wise choices for life, career, and service; encourage and support scholarly work that contributes to the wisdom on which society bases its decisions; and engage other educational institutions, industry, and agencies of social change in collaborative efforts fostering a just, peaceful, and sustainable world. The College's mission is to enlighten minds, engage hearts, and empower lives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MERRIMACK COLLEGE
Notes to Financial Statements
June 30, 2016 and 2015

Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Income and net gains on investments of endowment and similar funds are reported as follows:

as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;

as increases in temporarily restricted net assets if the terms of the gift or the College's interpretation of relevant state law impose restrictions on the use of the income; and

as increases in unrestricted net assets in all other cases.

Operations

The accompanying statements of activities present the change in net assets distinguishing between operating and nonoperating activities. Operating activities principally include all revenues and expenses that relate to the College's educational programs, research, training and supporting activities. Operating revenues also include investment return pursuant to the College's spending rate policy earned on long-term investments held for endowment and similar purposes.

Expenses associated with the operation and maintenance of College plant assets are allocated on the basis of square footage utilized by the functional categories. Debt interest and depreciation expense are allocated to functional areas based on the actual purpose of the assets.

Expenses associated with fundraising activities of the College were approximately \$2.4 million and \$2.5 million in 2016 and 2015, respectively, and are included in institutional support in the statements of activities.

The College has defined nonoperating activities principally to include investment income earned, and gains and losses on investments held for long-term purposes and gift revenue restricted or designated for long-term investment or capital expenditures, net of amounts distributed to support operations in accordance with the endowment spending policy. Certain other gains and losses considered to be of a more unusual or non-recurring nature are also included as part of nonoperating activities.

Cash and Cash Equivalents

The College considers cash equivalents as investments with maturities at date of purchase of three months or less. The College maintains cash balances at several banks in excess of federally insured limits. The College also maintains cash balances in money market funds which are not insured. The College has not experienced any losses in these accounts and believes it is not exposed to any undue

MERRIMACK COLLEGE
Notes to Financial Statements
June 30, 2016 and 2015

Investments

Investments are stated at fair value. If an investment is held directly by the College and an active market with quoted prices exists, the College reports the fair value as the market price of an identical security.

Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year.

MERRIMACK COLLEGE
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The College has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities at the time of disposal of certain capital assets. Once the College determines an obligation exists, it assesses whether or not the amount of the obligation can be reasonably estimated. If the amount of the obligation can be reasonably estimated, the College records the present value of the obligation, the corresponding cost is capitalized and the liability is accreted to fair value each reporting period until settled. At June 30, 2016 and 2015 the College has an estimated liability of \$153,604 and \$151,783, respectively, for these activities. The estimated liability relates principally to buildings that are substantially depreciated.

Income Taxes

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the “Code”), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The College is required to assess uncertain tax positions and has determined that there were no such positions that are material to the financial statements.

Advances from the U.S. Department of Education

MERRIMACK COLLEGE
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Notes to Financial Statements
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The following table presents the College's activity for the fiscal years ended June 30, 2016 and 2015 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

<u>Level 3 Roll Forward</u>	Private Equity Funds	Hedge, Commodities and Venture Funds	Total
Fair value at July 1, 2014	\$ 1,724,460	\$ 1,084,093	\$ 2,808,553
Acquisitions	128,272	19,610	147,882
Dispositions	(232,455)	(148,695)	(381,150)
Net realized gain (loss)	167,261	134,703	301,964
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Acquisitions	\$ 38,855	\$ 11,250	\$ 50,105
Dispositions	(296,212)	(122,040)	(418,252)
Net realized gain (loss)	182,717	70,789	253,506
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Notes to Financial Statements
June 30, 2016 and 2015

Liquidity

Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the College may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The College cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any li reicdil re 2a317.0 9(t) c41.

MERRIMACK COLLEGE
Notes to Financial Statements
June 30, 2016 and 2015

5. The expected total return from income and the appreciation of investments
6. Other resources of the College
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Notes to Financial Statements
June 30, 2016 and 2015

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MERRIMACK COLLEGE
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June 30, 2016 and 2015

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ 11,015,439	\$ 15,385,271	\$ 20,163,827	\$ 46,564,537
Investment return				
Investment income	303,775	988,053	-	1,291,828
Net appreciation	<u>143,095</u>	<u>465,426</u>	<u>-</u>	<u>608,521</u>
Total investment return	446,870	1,453,479	-	1,900,349
Contributions/additions	1,300,000	-	3,311,915	4,611,915
Appropriation of endowment assets for expenditure	(477,525)	(1,384,703)	-	(1,862,228)
Receipt of prior year appropriations	<u>61,987</u>	<u>(1,406)</u>	<u>-</u>	<u>60,581</u>
Endowment net assets, July 1, 2015	<u>\$ 12,346,771</u>	<u>\$ 15,452,641</u>	<u>\$ 23,475,742</u>	<u>\$ 51,275,154</u>
Investment income	226,592	716,079	-	942,671
Net appreciation	<u>(212,954)</u>	<u>(672,984)</u>	<u>-</u>	<u>(885,938)</u>
Total investment return	13,638	43,095	-	56,733
Contributions/additions	-	-	408,677	408,677
Appropriation of endowment assets for expenditure	(123,979)	(1,738,249)	-	(1,862,228)
Receipt of prior year appropriations	<u>35,803</u>	<u>-</u>	<u>-</u>	<u>35,803</u>
Endowment net assets, June 30, 2016	<u>\$ 12,272,233</u>	<u>\$ 13,757,487</u>	<u>\$ 23,884,419</u>	<u>\$ 49,914,139</u>

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Bonds Payable

In August 2012, the College issued \$59,815,000 in Massachusetts Development Financing Agency Tax Exempt Bonds, Merrimack College Issue, Series 2012A maturing in 2042 primarily for the purposes of refunding the Series 1997, 2002 and 2009 Revenue Bonds and the acquisition, construction, and renovation

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11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions due to the passage of time and/or satisfying the restricted purposes specified by the donors were as follows at June 30:

	<u>2016</u>	<u>2015</u>
Purpose restriction		
Instruction	\$ 399,422	\$ 173,418
Student services	281,280	374,985
Academic support	231,697	243,384
Student aid	1,463,986	1,552,796
Buildings (non-operating)	322,360	60,791
Other	<u>243,985</u>	<u>115,543</u>
	<u>\$ 2,942,730</u>	<u>\$ 2,520,917</u>

12. RELATED-PARTY TRANSACTIONS

The Order of Saint Augustine (the “Order”) was instrumental in the founding of Merrimack College. Members of the Order continue to serve as Merrimack College administrators and faculty. Designated members of the Order are members of the College’s Board of Trustees.

The College remits to the Order lay-equivalent salaries for those services provided by Order members. In the years ended June 30, 2016 and 2015, such salaries totaled \$408,812 and \$396,000, respectively.

Under a lease dated March 22, 1994, the Order provides the College with office space in Austin Hall. The College paid annual rent of \$82,768 in the years ended June 30, 2016 and 2015. The lease is renewable or extended annually until March 22, 2033.

13. DEFINED CONTRIBUTION PLAN

Faculty and staff members of the College are participants in a defined contribution retirement annuity plan. Total employer contributions under the plan amounted to \$2,437,049 and \$2,594,847 for the years ended June 30, 2016 and 2015, respectively. Required employer contributions under the plan are funded at the same time as employee contributions.

14. CONTINGENCIES

Federal Perkins Loan Program

In late 2011, the College identified issues related to the prior administration’s reconciliation and record-keeping of the College’s Perkins loan program. The College determined that there were significant discrepancies related to the loan program and that further investigation was warranted. The College is working with the U.S. Department of Education and other federal agencies to help resolve all issues related to this situation. The former director of financial aid was charged with crimes related to her administration of the loan program, and the College was named as a victim in the criminal proceeding. On November 24, 2014, the former director entered a guilty plea on all counts; and on March 24, 2015 she was sentenced to

