Financial Statements

Merrimack College

June 30, 2018 and 2017



Independent Auditors' Report

The Board of Trustees Merrimack College North Andover, Massachusetts

We have audited the accompanying financial statements of Merrimack College (the "College"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year 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 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 these financial statements based on our audit. We conducted our audit 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.



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, 2018, 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.

2017 Financial Statements

The financial statements of Merrimack College as of June 30, 2017 were audited by other auditors whose report, dated September 22, 2017, expressed an unmodified opinion on those statements.

October 10, 2018 Boston, Massachusetts

Statements of Financial Position

	June 30,		
	2018	2017	
Assets			
Cash and cash equivalents	\$ 16,491,126	\$ 28,266,291	
Contributions receivable, net	4,278,396	3,124,235	
Accounts and loans receivable, net	4,984,404	4,886,843	
Other assets	1,425,973	749,821	
Investments	59,030,093	55,100,926	
Deposits with bond trustees	25,197,483	38,007,822	
Land, buildings, and equipment, net	149,622,650	121,296,503	
Total assets	\$261,030,125	\$251,432,441	
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	\$ 13,652,974	\$ 13,008,971	
Student deposits and deferred revenue	13,165,648	13,927,812	
Bonds payable	112,514,700	114,112,607	
Refundable U.S. government grants for student loans	1,318,090	1,312,133	
Total liabilities	140,651,412	142,361,523	
Net assets:			
Unrestricted	69,206,478	62,597,629	
Temporarily restricted	23,850,975	21,619,266	
Permanently restricted	27,321,260	24,854,023	
Total net assets	120,378,713	109,070,918	
Total liabilities and net assets	\$261,030,125	\$ 251,432,441	

Statement of Activities

Year Ended June 30, 2018 (with comparative totals for 2017)

Temporarily Permanently 2018 2017
Unrestricted Restrict ed Restricted Total Total

Statement of Activities

Year Ended June 30, 2017

Operating resources	Unrestricted	Temporarily Restricted	Permanently Restricted	Т	otal
Operating revenue: Tuition and fees Less scholarship aid to students	\$ 136,913,565 (58,925,873)	\$ -	\$	•	136,913,565 (58,925,873)
Tuition and fees, net	77,987,692	-		-	77,987,692
Grant revenues	1,889,552	-		-	1,889,552
Contributions	403,348	557,571		-	960,919
Investment return utilized for operations	191,272	1,670,956		-	1,862,228
Auxiliary enterprises	33,829,080	-		-	33,829,080
Other revenue	2,232,061	-		-	2,232,061
Total revenues	116,533,005	2,228,527		-	118,761,532

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Statements of Cash Flows

	Years Ended June 30, 2018 2017			
Cash flows from operating activities: Change in net assets Adjustments to reconcile change in net assets to net cash provided by operating activities:	\$ 11,307,795	\$ 15,811,545		
Depreciation and amortization	6,737,351	5,517,728		
Bond amortization	(132,907)	(87,277)		
Provision for doubtful accounts	(240,437)	(392,454)		
Realized and unrealized (gains) losses on investments	(3,690,744)	(4,568,871)		
Contributions received for long-term investment Changes in operating assets and liabilities excluding cash:	(3,367,028)	(2,947,397)		
Accounts and loans receivable	142,876	(655,641)		
Contributions receivable	(1,154,161)	(927,016)		
Other assets	(676,152)	495,403		
Accounts payable and accrued expenses	2,529,677	(1,410,297)		
Student deposits and deferred revenue	(762,164)	6,065,512		
Cladelli deposite and deferred revende	(102,101)	0,000,012		
Net cash provided by operating activities	10,694,106	16,901,235		
Cash flows from investing activities:				
Deposits with bond trustees	12,810,339	(23,881,984)		
Cash paid for purchase of land, buildings, and equipment	(36,949,172)	(15,510,747)		
Purchase of investments	(7,723,494)	(20,397,485)		
Proceeds from sale of investments	7,485,071	20,433,878		
Net cash used in investing activities	(24,377,256)	(39,356,338)		
Cash flows from financing activities:				
Proceeds from issuance of bonds payable	-	30,495,423		
Bond refinancing costs	-	(248,615)		
Repayments of bonds payable	(1,465,000)	(1,545,089)		
Contributions received for long-term investment	3,367,028	2,947,397		
Net change in refundable U.S. government grants	5,957	(75,415)		
Net cash provided by financing activities	1,907,985	31,573,701		
Net change in cash and cash equivalents	(11,775,165)	9,118,598		
Cash and cash equivalents, beginning of year	28,266,291	19,147,693		
Cash and cash equivalents, end of year	\$16,491,126	\$ 28,266,291		
Supplemental data:				
Cash paid during the year for interest	\$ 4,998,012	\$ 4,101,052		
Change in construction costs accrued and unpaid	\$ 1,939,716	\$ 3,825,392		

Notes to Financial Statements

Note 1 - Organization

Merrimack College (the "College") is a private, coeducational institution with a Catholic tradition that currently offers undergraduate and graduate programs leading for a variety of degrees. The College provides academic, residential and other services to a diverse student population. The College was founded by the members of the Order of Saint Augustine, Province of Saint Thomas of Villanova (the "Order"), and that Province of the Order has had, and always shall have, a special relationship to the College. No action in any way altering such relationship or the mission of the College shall be valid unless approved by the unanimous vote or consent of those Trustees in office who are members of the Order. The Order also maintains certain special powers such as approving a list of candidates to be president of the College. In addition, the Order also shall maintain board seats which constitute 20% or more of the College's Trustees at any time. These elements are to ensure that the College will continue to focus its mission on enlightening minds, engaging hearts, and empowering lives.

The College has enrollment of over 4,000 students predominantly from the Northeast region of the United States along with enrollment of students from most states in the country. The College also enrolls students from over thirty countries. Merrimack is accredited by the New England Association of Schools and Colleges as its primary accreditor, but the College also has other accreditations when it deems it useful or required in terms of providing evidence of further rigor and discipline in certain programs of study. The College participates in student financial aid programs sponsored by the United States Department of Education ("DOE"), and to a much lesser extent individual states, which provides financial support for students. These programs generally facilitate the payment of a significant portion of tuition and other expenses incurred by students when they meet certain eligibility requirements as determined by the College's financial aid office and are subject to after the fact review by the funders.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP")

Notes to Financial Statements

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with GAAP 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. The more significant estimates made by the College involve allowances for uncollectable accounts on contributions, accounts and loans receivable, fair value of certain investments, useful lives of depreciable assets, conditional asset retirement obligations, present value of annuity payment obligations and the allocation of common expenses over program functions. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include short-term securities with maturities at date of purchase of three months or less. Certain accounts include balances that exceed incurred limits while others do not include deposit insurance. The College has not experienced any losses in such accounts. Cash and cash equivalents held by investment managers are considered part of investments. Cash also includes amounts restricted for a student loan program in the amount of \$378,446 and \$348,389 for the years ended June 30, 2018 and 2017, respectively.

Accounts and Loans Receivable and Refundable U.S. Government Grants for Student Loans

Accounts and loans receivable are stated net of allowance for doubtful accounts of \$807,847 and \$1,019,000 for the years ended June 30, 2018 and 2017, respectively. Loans receivable represent amounts due from students under the Federal Perkins Loans Program ("Perkins Loans"), which is subject to significant restrictions. Perkins Loans that are in default and meet certain requirements can be assigned to the DOE, which reduces the U.S. government grants payable for student loans. The Perkins Loans Program is winding down and as funds are collected they will be returned to the DOE and the College as applicable.

The College regularly assesses the adequacy of the allowance for doubtful accounts related to accounts and loans receivable by performing ongoing evaluations of the student account and loan portfolio, including such factors as prior collection history, the economic environment and the type of

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments

Investments are carried at fair value. Fair value is determined based on the fair value policies described in this section.

Net investment return (loss) is reported in the statement of activities and consists of interest, dividends, realized and unrealized capital gains and losses net of external direct investment expenses. Returns associated with permanently restricted funds are accounted for as part of temporarily restricted pending appropriation from the Board of Trustees. If a donor instrument requires that returns be added to corpus, such returns are reflected as permanently restricted when earned.

The overall investment objective of the College is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The College diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Investment Committee, which oversees the College's investment program in accordance with established guidelines in consultation and collaboration with the College's investment advisors.

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Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

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 federal income taxes pursuant to Section 501(a) of the Code. The College is also generally exempt from state income taxes. Given the limited taxable activities of the College, management concluded that such disclosures related to tax provisions are not necessary.

Uncertain Tax Positions

Notes to Financial Statements

Note 3 - Contributions Receivable, net

Contributions receivable are expected to be realized as follows at June 30:

2018 2017

Notes to Financial Statements

Note 4 - Investments (Continued)

	2017					
		Level 1		NAV		Total
Working capital investments:						
Cash and cash equivalents	\$	404,349	\$	-	\$	404,349
U.S. and international bond funds		161,680		-		161,680
U.S. and international equity funds		175,692				175,692
Total working capital investments		741,721				741,721
Long-term investments (endowment):						
Cash and cash equivalents		360,118		-		360,118
U.S. and international bond funds		7,263,380		-		7,263,380
U.S. and international equity funds		32,897,414		-		32,897,414
Private equity and venture capital funds		11,540,364		2,297,930		13,838,294
Total long-term investments (endowment)		52,061,276		2,297,930		54,359,206
Total investments	\$	52,802,997	\$	2,297,930	\$	55,100,927

Unfunded capital commitments amounted to approximately \$221,000 and \$340,000 at June 30, 2018 and 2017, respectively.

Redemption/liquidity of investments were as follows at June 30, 2018:

Permissible Investment	Fair Value
Redemption Frequency	Redeemable
Daily Illiquid (>365 Days)	\$ 56,938,137 2,091,956
Total	\$ 59,030,093

Notes to Financial Statements

Note 4 - Investments (Continued)

Total investment return consisted of the following for the years ended June 30:

	2018	2017
Realized net gains	\$ 1,479,833	\$ 812,480
Unrealized net gains	2,210,911	3,756,391
Interest and dividends	1,455,052	1,267,079

Notes to Financial Statements

Note 5 - Land, Buildings, and Equipment, net (Continued)

During the year ended June 30, 2018, the College purchased a building that was previously leased (see Note 12) and reclassified all related leasehold improvements to buildings and components. Depreciation and amortization expense was \$6,737,351 and \$5,517,728 for the years ended June 30, 2018 and 2017, respectively. During construction, the College capitalizes interest cost incurred on long-lived projects which generally represent buildings and components. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$951,609 and \$464,248 during the years ended June 30, 2018 and 2017, respectively. The College considers assets under capital leases as modest in amount and thus has omitted detailed disclosures.

Note 6 - Bonds Payable and Line of Credit

Bonds Payable

Bonds payable is as follows at June 30:

	Payments	204.0	2047
Panda navahlar	Through	2018	2017
Bonds payable:			
Massachusetts Development Finance Agency	20.40	Ф 50 000 000	Ф FO 04F 000
Bonds - Series 2012A	2042	\$ 58,630,000	\$ 59,815,000
Massachusetts Development Finance Agency	0044	04 000 000	04 570 000
Bonds - Series 2014	2044	21,290,000	21,570,000
Massachusetts Development Finance Agency			
Bonds - Series 2017	2047	29,270,000	29,270,000
Total bonds payable		109,190,000	110,655,000
Plus unamortized bond premium		5,078,199	5,279,049
Less deferred bond issuance costs		(788,982)	(819,447)
Less unamortized bond discount		(964,517)	(1,001,995)
Total bonds payable		\$12,514,700	\$114,112,607

Bonds mature serially and have fixed interest rates ranging from 2.5% to 5.25%. The bonds each include a pledge of gross receipts of the College.

Notes to Financial Statements

Note 6 - Bonds Payable and Other Debt (Continued)

Bonds Payable (Continued)

Bonds payable are due as follows at June 30, 2018:

2019	\$ 1,650,00	0
2020	1,710,00	0
2021	1,765,00	0
2022	1,860,00	0
2023	1,960,00	0
Thereafter	100,245,00	0

\$ 109,190,000

Interest expense net of amounts capitalized was \$4.2 million and \$3.6 million for the years ended June 30, 2018 and 2017, respectively.

Line of Credit

The College has an unsecured line of credit agreement with a bank that extends through January 31, 2020 in the amount of \$7,500,000. The line of credit bears interest at 30-day LIBOR plus 1.25%, with a 0.10% unused fee (3.25% and 2.47% at June 30, 2018 and 2017, respectively). The line of credit includes a consecutive 15-day non-use provision, which must be met annually. The line of credit is subject to annual extensions upon mutual agreement. The line of credit was utilized twice during the year ended June 30, 2018 and was not utilized during the year ended June 30, 2017. There was no amount outstanding as of June 30, 2018 and 2017.

Note 7 - Endowment

The College's endowment consists of approximately 300 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board to function

Notes to Financial Statements

Note 7 - Endowment (Continued)

Interpretation of Relevant Law (Continued)

Notes to Financial Statements

Note 7 - Endowment (Continued)

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

long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the College's current endowment spending policy, which is within the guidelines specified under state law, 0% to 5% of the average of the fair value of qualifying endowment investments at the end of the previous three years may be authorized for appropriation. The actual authorized appropriation amount is \$1,862,228 in 2018 and 2017, as well as the budgeted amount for 2019. In establishing this policy, the College considered the expected long-term rate of return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported as reductions in unrestricted net assets. There were no deficiencies reported as of June 30, 2018 and 2017.

Endowment net assets consist of the following at June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	_			

Notes to Financial Statements

Notes to Financial Statements

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

		2018		2017
Unspent purpose restricted gifts:				
Instruction	\$	803,553	\$	512,650
Student services		43,930		63,656
Academic support		735,057		577,281
Student aid		617,120		785,361
Building projects		534,825		140,977
Other		505,866		584,991
		3,240,351		2,664,916
Unappropriated gains from permanently restricted net assets	1	8,247,170	1	16,259,725
Contributions receivable:				
Instruction		264,468		225,085
Student services		291,783		220,074
Building projects		1,408,832		1,739,881
Other		398,371		509,585
		2,363,454		2,694,625
	\$ 2	23,850,975	\$ 2	21,619,266

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 for the years ended June 30:

	2018	2017
Operating purpose and/or time restriction:		
Instruction	\$ 286,038	\$ 444,907
Student services	231,224	362,376

Notes to Financial Statements

Note 9 - Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at June 30:

	2018	2017
Purpose restriction:		
Instruction	\$ 7,722,361	\$ 7,236,876
Unrestricted	1,631,954	1,631,954
Student aid	15,518,896	15,020,547
Other	613,002	606,528
	25,486,213	24,495,905
Contributions receivable:		
Instruction	1,196,786	178,574
Student aid	638,261_	179,544
	1,835,047_	358,118
	\$27,321,260	\$24,854,023
Contributions receivable: Instruction	25,486,213 1,196,786 638,261 1,835,047	24,495,905 178,574 179,544 358,118

Note 10 - Benefit Plan

The College provides a qualified defined contribution retirement annuity plan under Internal Revenue Service Code Section 403 for all eligible employees. Under this plan, the College and plan participants make contributions. The College's share of these contributions amounted to \$2,877,766 and \$2,618,770 for the years ended June 30, 2018 and 2017, respectively.

Note 11 - Commitments and Contingencies

Employment Agreements

The College has employment contracts with certain employees which extend over multiple fiscal years through 2022, and contain a variety of business terms typical in the education sector.

The College has in place a collective bargaining agreement with facilities employees and the agreement expires May 21, 2021.

Contingencies

As reported in prior years, the College sustained certain losses in connection with the administration of a certain aspect of its campus based federal student loan program. Management is working to recover its losses under the insurance programs in place at that time which could result in a recovery in a future period relative to past losses.

Notes to Financial Statements

Note 11 - Commitments and Contingencies (Continued)

Contingencies (Continued)

From time to time, the College is subject to claims and litigation arising in the ordinary course of business. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters, if any, will have a material adverse effect on its financial position, results of operations, or cash flows.

Note 12 - Related-Party Transactions

The College remits to the Order lay-equivalent salaries for those services provided by Order members. Remittances amounted to \$441,368 and \$495,371 for the years ended June 30, 2018 and 2017, respectively.

The Order leases office space in Austin Hall to the College under an operating lease arrangement. Rent expense under this arrangement amounts to \$39,884 and \$82,768 in the years ended June 30, 2018 and 2017, respectively. In December 2017, the College purchased this property from the Order in the amount of \$5,643,992. This includes the land located at 315 Turnpike Street, Austin Hall and the Collegiate Church.