ELIZABETHTOWN COLLEGE

Elizabethtown, Pennsylvania

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

ELIZABETHTOWN COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Elizabethtown College
Elizabethtown, Pennsylvania

We have audited the accompanying financial statements of Elizabethtown College (the "College"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 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 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 audits 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 Elizabethtown College as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Chicago, Illinois
October 29, 2018

ELIZABETHTOWN COLLEGE

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 15,891,806	$ 8,433,734
Short-term investments	3,641,845	13,203,549
Accounts and notes receivable		
Students (net of allowance for uncollectible accounts of $36,802 and $54,492 in 2018 and 2017, respectively)	859,043	1,133,537
Other	666,939	364,253
Inventories	457,946	402,938
Prepaid expenses	646,238	819,720
Pledges receivable due in less than one year (net of allowance for uncollectible pledges of $32,829 and $138,140 in 2018 and 2017, respectively)	1,630,555	1,375,509
Total current assets	23,794,372	25,733,240
Funds held in trust	3,472,558	2,994,398
Pledges receivable (net of allowance for uncollectible pledges of $259,629 and $207,381 in 2018 and 2017, respectively)	3,468,238	4,633,837
Student loans (net of allowance for uncollectible loans of $60,000 in 2018 and 2017)	1,489,292	1,455,623
Interest rate swap agreement	401,754	-
Investments	85,220,379	80,368,420
Property, plant and equipment (net of accumulated depreciation of $78,607,158 and $74,399,047 in 2018 and 2017, respectively)	82,204,654	77,857,135
TOTAL ASSETS	$ 200,051,247	$ 193,042,653

LIABILITIES AND NET ASSETS

	2018	2017
LIABILITIES		
Accounts payable	$ 2,863,647	$ 1,240,391
Accrued salaries, wages and benefits	2,815,597	1,665,938
Deposits and agency funds	1,960,175	1,596,522
Current liability on annuity contracts and trusts	115,333	113,296
Current portion of long-term debt	3,057,514	2,984,534
Total current liabilities	10,812,266	7,600,681
Advances from federal government for student loans	1,250,276	1,250,276
Annuity contracts and trusts liability	3,475,792	3,542,836
Post-retirement liability	13,675,309	15,558,437
Interest rate swap agreement	-	307,309
Long-term debt	26,751,284	29,755,039
Total liabilities	55,964,927	58,014,578
NET ASSETS		
Unrestricted	59,905,830	50,378,063
Temporarily restricted	43,668,615	44,886,121
Permanently restricted	40,511,875	39,763,891
Total net assets	144,086,320	135,028,075
TOTAL LIABILITIES AND NET ASSETS	$ 200,051,247	$ 193,042,653

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

ELIZABETHTOWN COLLEGE

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018 with comparative totals for 2017

	2018				2017
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
REVENUE					
Student related revenue					
Student tuition and fees, gross	$ 81,977,897	$ -	$ -	$ 81,977,897	$ 81,509,045
Less tuition discount	(41,197,771)	-	-	(41,197,771)	(39,508,442)
Student tuition and fees, net	40,780,126	-	-	40,780,126	42,000,603
Auxiliary enterprises	16,908,452	-	-	16,908,452	17,350,060
Private gifts and grants	1,121,433	4,555,336	747,984	6,424,753	9,680,445
Government grants	1,060,666	-	-	1,060,666	929,713
Investment income	467,163	569,771	-	1,036,934	1,191,117
Gain on investments	1,468,978	4,929,143	-	6,398,121	7,200,466
Gain on interest rate swap	709,063	-	-	709,063	751,666
Other	163,332	-	-	163,332	128,706
Net assets released from restrictions	11,271,756	(11,271,756)		-	-
Total revenue	73,950,969	(1,217,506)	747,984	73,481,447	79,232,776
EXPENSES					
Instruction	24,743,795	-	-	24,743,795	24,930,536
Academic support	2,395,508	-	-	2,395,508	2,471,716
Student services	7,559,166	-	-	7,559,166	7,460,232
Institutional support	11,705,210	-	-	11,705,210	12,804,900
Facilities					
Operation and maintenance of plant	5,446,762	-	-	5,446,762	6,255,893
Depreciation and amortization	4,238,820	-	-	4,238,820	4,475,517
Interest	1,340,101	-	-	1,340,101	1,510,524
Auxiliary enterprises	6,993,840	-	-	6,993,840	7,067,578
Total expenses	64,423,202	-	-	64,423,202	66,976,896
Change in net assets	9,527,767	(1,217,506)	747,984	9,058,245	12,255,880
NET ASSETS					
Net assets, beginning of year	50,378,063	44,886,121	39,763,891	135,028,075	122,772,195
END OF YEAR	$ 59,905,830	$ 43,668,615	$ 40,511,875	$ 144,086,320	$ 135,028,075

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

ELIZABETHTOWN COLLEGE

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE				
Student related revenue				
Student tuition and fees, gross	$ 81,509,045	$ -	$ -	$ 81,509,045
Less tuition discount	(39,508,442)	-	-	(39,508,442)
Student tuition and fees, net	42,000,603	-	-	42,000,603
Auxiliary enterprises	17,350,060	-	-	17,350,060
Private gifts and grants	1,153,946	6,015,281	2,511,218	9,680,445
Government grants	929,713	-	-	929,713
Investment income	350,940	840,177	-	1,191,117
Gain on investments	1,775,615	5,424,851	-	7,200,466
Gain on interest rate swap	751,666	-	-	751,666
Other	128,706	-	-	128,706
Net assets released from restrictions	5,048,717	(5,048,717)		-
Total revenue	69,489,966	7,231,592	2,511,218	79,232,776
EXPENSES				
Instruction	24,930,536	-	-	24,930,536
Academic support	2,471,716	-	-	2,471,716
Student services	7,460,232	-	-	7,460,232
Institutional support	12,804,900	-	-	12,804,900
Facilities				
Operation and maintenance of plant	6,255,893	-	-	6,255,893
Depreciation and amortization	4,475,517	-	-	4,475,517
Interest	1,510,524	-	-	1,510,524
Auxiliary enterprises	7,067,578	-	-	7,067,578
Total expenses	66,976,896	-	-	66,976,896
Change in net assets	2,513,070	7,231,592	2,511,218	12,255,880
NET ASSETS				
Net assets, beginning of year	47,864,993	37,654,529	37,252,673	122,772,195
END OF YEAR	$ 50,378,063	$ 44,886,121	$ 39,763,891	$ 135,028,075

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

ELIZABETHTOWN COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 9,058,245	$ 12,255,880
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation of property and equipment	4,208,111	4,452,828
Amortization of bond issuance costs	22,689	22,689
Provision for uncollectible accounts	80,324	322,158
Net gain on investments	(6,398,121)	(7,200,466)
Gain on swap	(709,063)	(751,666)
Loss on disposal of assets	-	418,621
Gifts and donations retricted for long-term purposes	(2,850,446)	(6,656,599)
Changes in assets and liabilities		
Actuarial liability for annuities payable	(65,007)	(115,071)
Due from students	274,494	(233,454)
Accounts receivable	(350,323)	(153,218)
Pledges receivable	(302,754)	210,868
Inventories	(55,008)	33,682
Prepaid expenses	173,482	98,113
Accounts payable	(348,919)	(1,023,673)
Accrued salaries and wages	1,149,659	77,021
Deposits and agency funds	363,653	(10,780)
Post-retirement liability	(1,883,128)	(371,530)
Net cash flows from operating activities	2,367,888	1,375,403
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,685,593)	(3,104,813)
Proceeds from sales of investments	3,231,755	3,691,112
Net proceeds from short-term investments	9,561,704	1,543,016
Purchase of property and equipment	(6,583,455)	(5,023,678)
Decrease in funds held in trust	(478,160)	166,346
Loan disbursements to students	(268,646)	(270,742)
Repayments of students loans	234,977	240,265
Net cash flows from investing activities	4,012,582	(2,758,494)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt	(2,961,484)	(779,257)
Proceeds from issuance of long-term debt	200,500	-
Debt issuance costs	(192,480)	-
Gifts and donations received for long-term purposes	4,031,066	5,036,167
Net cash flows from financing activities	1,077,602	4,256,910
Net change in cash and cash equivalents	7,458,072	2,873,819
Cash and cash equivalents		
Beginning of year	8,433,734	5,559,915
END OF YEAR	$ 15,891,806	$ 8,433,734
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 1,340,101	$ 1,510,424
NONCASH INVESTING AND FINANCING ACTIVITIES		
Capitalized construction costs included as accounts payable	$ 1,972,175	$ 668,116

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Elizabethtown College (the College), founded in 1899, is a comprehensive residential college located in Pennsylvania's historic Lancaster County. More than 45 major programs of study in liberal arts, sciences and professional studies are offered to more than 2,000 students. Elizabethtown College is a community of learners dedicated to educating students intellectually, socially, aesthetically and ethically for lives of service and leadership as citizens of the world.

Basis of Presentation

The accounting policies of the College reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

- Unrestricted - Net assets not subject to donor-imposed stipulations.
- Temporarily Restricted - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.
- Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets. Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with purchased maturities of 90 days or less. Each night, the College sweeps all cash into a short-term investment account which is considered cash equivalent to maximize interest earned.

Short-Term Investments

The College holds funds in certain short-form investment accounts which are used primarily for operating activities at the College.

Concentrations of Credit Risk

Financial instruments which subject the College to concentrations of credit risk consist primarily of investments in long-term corporate and governmental fixed income instruments, and equity holdings of domestic and foreign corporations. In addition, the College typically maintains cash and cash equivalents and short-term investments in local banks which may, at times, exceed the FDIC insurance limits.

The College's operations are located in Elizabethtown, Pennsylvania and its students come primarily from Pennsylvania and surrounding states. The College's major source of revenue is from tuition and room and board fees.

Student Accounts Receivable

Student accounts receivable are carried at the unpaid balance of the original amount billed to students. Student accounts receivable are reported net of allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible. Recoveries of student accounts previously written-off are recorded when received. Receivables are generally unsecured. A student account receivable is considered to be delinquent if not paid by the due date. A finance charge is applied to delinquent amounts.

Funds Held in Trust

Funds held in trust include funds held by the designated trustee for payment on construction costs and maintenance of debts reserve funds and funds held in reserve for payment of future employee healthcare costs.

Inventories

Inventories consist of items for the College store and dining services, and are valued at the lower of cost or net realizable market. Cost is determined by the first-in, first-out method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Investments

The College records investments at fair value. Equity securities and mutual funds are valued at market value. Mortgage investments and cash surrender values of life insurance policies, are carried at the stated value which approximates the market value of these assets. Alternative investments are recorded at the estimated fair value using net asset value per share of the investment established by the fund managers and reviewed by the investment consultant. Alternative investments consist of private equity securities, real estate investment, mortgages and hedge funds. Because such investments are not readily marketable, their estimated value is subject to uncertainty, and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The College reviews and evaluates the values provided by the outside parties and agrees with the valuation methods and assumptions used in determining the fair value of alternative investments.

Gains and losses on investments are determined using an average cost method for securities and the specific identification method for other investments. Gains and losses are based on the trade date for investments.

The College is the recipient/beneficiary of several irrevocable trust arrangements which are held by others. The related income from these arrangements is recognized as either temporarily restricted or unrestricted revenue by the College when received, depending on whether the donor-imposed restrictions exist. The recorded value of the stream of future revenue associated with these trusts is required to be measured using the present value of future cash receipts. The market value of the pro rata ownership portion of the trusts' assets is used as an approximation of the present value of the future receipts and is included in investments.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (20 years), buildings (20-87 years) and equipment (3-15 years).

The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation amounts and any resulting gain or loss is recorded in the period of disposal.

Renewals and improvements which extend the useful lives of assets are capitalized at cost. Library books are expensed when purchased. Maintenance and repairs are included as expenses in the statements of activities.

Bond Issuance Costs

All deferred costs associated with issued debt are being amortized over the term of respective debt.

Deposits and Agency Funds

Deposits relate primarily to summer and fall session tuition and matriculation and breakage deposits received prior to June 30. Agency funds consist of assets held for others, primarily student organizations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Private Gifts and Grants

The College distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Under current accounting guidance, donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

Advertising Costs

The College follows the policy of expensing advertising and marketing costs when incurred. For the years ended June 30, 2018 and 2017, advertising related costs amounted to $652,661 and $452,238, respectively.

Fundraising Expenses

The College follows the policy of expensing the costs of fundraising when incurred. For the years ended June 30, 2018 and 2017, fundraising costs amounted to $1,640,818 and $1,815,748, respectively.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful student accounts, pledges and other receivables, alternative investment values, useful lives of fixed assets, assumptions related to the post-retirement liability and the reported fair values of certain of the College's assets and liabilities. Actual results could differ from those estimates.

Income Tax Status

The Internal Revenue Service has determined that the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of June 30, 2018 and 2017. The College's tax returns are subject to review and examination by federal and state authorities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in Note 16. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reclassifications

Certain amounts appearing in the 2017 financial statements have been reclassified to conform to the 2018 presentation. The reclassifications had no effect on reported amounts of total net assets or changes in total net assets. Expenses in the amount of $555,188 were reclassified from auxiliary expenses to operation and maintenance of plant on the 2017 statement of activities.

New Accounting Pronouncement Not Yet Effective

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU 2016-14 is effective for the College in fiscal year 2019. Management is assessing the impact of ASU 2016-14 on the College's financial statements.

During May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Amendments defer the effective date of ASU 2014-09, clarify the implementation guidance on principal versus agent considerations in Topic 606, and clarify the identification of performance obligations and the licensing implementation guidance. Topic 606 (as amended) is effective for the College in fiscal year 2019. The College may elect to apply the guidance earlier, but no earlier than 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The College is assessing the effect that Topic 606 (as amended) will have on its results of operations, financial position and cash flows.

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For not-for-profit entities that have conduit debt, ASU 2018-08 is effective for the College in fiscal year 2019. The College is assessing the impact that ASU 2018-08 will have on its results of operations, financial position and cash flows.

During February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The College will be required to apply the standard in fiscal year 2020. Early adoption is permitted. Management is assessing the impact of ASU 2016-02 on the College's financial statements.

NOTE 2 – LONG TERM INVESTMENTS

Investments consisted of the following at June 30:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 1,262,651	$ 1,262,651	$ 2,063,710	$ 2,063,710
Equities	7,168,206	7,618,667	6,306,347	7,493,864
Fixed income	756,871	729,818	713,168	701,975
Annuity funds	1,782,831	1,782,831	1,821,232	1,821,232
Alternative investments	63,118,641	72,711,197	59,451,277	67,192,580
Real estate	455,300	455,300	455,300	455,300
Funds in trust	659,915	659,915	639,759	639,759
Totals	$ 75,204,415	$ 85,220,379	$ 71,450,793	$ 80,368,420

The fair value of the total endowment assets included in long term investments amounted to $80,710,351 and $76,065,139 at June 30, 2018 and 2017, respectively. Included in those amounts are quasi-endowment assets of $16,274,127 and $15,766,889 at June 30, 2018 and 2017, respectively.

NOTE 3 – CREDIT QUALITY OF FINANCING RECEIVABLES

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At both June 30, 2018 and 2017, student loans represented less than 1% of total assets.

At June 30, student loans consisted of the following:

	2018	2017
Federal government programs	$ 1,429,875	$ 1,408,251
Institutional programs	119,417	107,372
	1,549,292	1,515,623
Less allowance for doubtful accounts		
End of year	(60,000)	(60,000)
Student loans receivable, net	$ 1,489,292	$ 1,455,623

Funds advanced by the Federal government of $1,250,276 at both June 30, 2018 and 2017 are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education (ED). Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by ED.

The Extension Act amended section 461 of the Higher Education Act to end the College's authority to make new Perkins Loans after June 30, 2018. The College is not required to assign the outstanding Perkins Loans to the Department or liquidate their Perkins Loan Revolving Funds due to the wind-down of the Perkins Loan Program, however, the College may choose to liquidate at any time in the future. As of June 30, 2018, the College continues to service the Perkins Loan Program.

At June 30, the following amounts were past due under student loan programs:

	Amounts Past Due			
June 30	1-60 days	60-90 days	90+ days	Total
2018	$ 542	$ 577	$ 111,191	$ 112,310
2017	2,974	555	107,082	110,611

NOTE 4 – PLEDGES RECEIVABLE

As of June 30, 2018 and 2017, donors to the College have made written promises to give totaling $5,506,358 and $6,470,704 respectively, on which management has established a reserve for uncollectible pledges of $292,458 and $345,521, respectively. Discounts on pledges receivable were $115,107 and $115,837 at June 30, 2018 and 2017, respectively. Pledges were discounted to their present value assuming their respective terms, and at the discount rate corresponding to the date each pledge was received. The discount rate ranged from 0.10% to 6.20% for 2018 and 2017. The discounted pledges, net of allowance as of June 30, 2018 are scheduled to be collected as follows:

	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 1,526,753	$ 103,802	$ 1,630,555
One to three years	1,672,640	151,566	1,824,206
Three to five years	491,363	137,669	629,032
More than five years	771,091	243,909	1,015,000
Totals	$ 4,461,847	$ 636,946	$ 5,098,793

Under current accounting guidance, unconditional promises to give (pledges) are required to be recorded as receivables and revenue, and the College is required to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

As of June 30, the components of the College's property, plant and equipment were as follows:

	2018	2017
Land and improvements	$ 19,223,140	$ 19,194,209
Buildings	120,976,880	118,228,623
Furniture and equipment	11,406,502	11,282,084
Construction in process	9,205,290	3,551,266
	160,811,812	152,256,182
Less: Accumulated depreciation	(78,607,158)	(74,399,047)
Totals	$ 82,204,654	$ 77,857,135

The College recorded depreciation expense of $4,208,111 and $4,452,828 for the years ended June 30, 2018 and 2017, respectively.

NOTE 6 – LONG-TERM DEBT

Long-term debt payable at June 30 consisted of the following:

Description	Maturity Dates	Interest Rates	Principal Balance 2018	Principal Balance 2017
2018 Revenue bond	2042	3.30%	$ 139,680	$ -
2017 Revenue bond	2042	3.21%	60,820	-
2016 Revenue bond	2028	2.89%	17,810,000	19,290,000
Series 2009 Revenue bonds	2029	Variable	10,238,480	10,813,480
Mortgage payable	2018	5.00%	35,499	73,001
2002 Refinancing bonds	2020	2.38%	707,052	1,131,779
Capital leases	2022	1.20%	1,239,691	1,683,947
			30,231,222	32,992,207
Unamortized bond issuance costs			(422,424)	(252,634)
			$ 29,808,798	$ 32,739,573

On November 15, 2017, the College entered into a bond and loan agreement with Fulton Bank (the "2018 Revenue bond" and "2017 Revenue bond") to borrow a total of $14,000,000 to be used towards future capital project costs. The College has the option to draw the funds at their discretion with repayment beginning in 2030. The bonds bear interest monthly at 80% LIBOR plus 1.55. As of June 30, 2018, balances outstanding on the bonds consist of issuance costs, as funds have yet to be drawn by the College. The aggregate maturities schedule does not include the amounts not yet drawn on the 2017 Revenue bonds or 2018 Revenue bonds.

On March 17, 2016, the College entered into a loan agreement with Fulton Bank (the "2016 Loan") to borrow $20,560,000 to refinance the College's outstanding 2006 fixed rate bonds. The 2016 Loan is a variable rate loan and the interest rate is reset weekly, at 80% of 30-Day Libor, plus 1.55%.

The proceeds of the Series of 2009 Revenue bonds were used for two purposes. $14,555,000 was used to refund the 2006 Variable Rate bonds. The refunded bonds have a variable rate from June 2015 through June 2029. At June 30, 2018, the rate was 3.48%. The remaining $2,048,255 of these funds has been used to fund energy projects on campus. This portion of the debt has a fixed rate of 2.38% and will be repaid from 2011 through 2019. There is an additional credit of $61,520 available under these bonds for campus energy projects.

The College purchased a property adjacent to the campus in 2009 and entered in a mortgage agreement. The mortgage has a fixed rate of 5% and will be repaid completely in 2018.

NOTE 6 – LONG-TERM DEBT (cont.)

Aggregate maturities of long-term debt are as follows:

Year Ending June 30,	Maturities
2019	$ 3,057,514
2020	3,023,270
2021	2,531,453
2022	2,443,485
2023	2,425,000
Thereafter	16,750,500
Total	$ 30,231,222

The College has entered into guarantees with the various bond authorities to collateralize the full and prompt payment of the principal and interest of the bonds. The obligation of the College to make payments under the guarantees is a general obligation of the College and is collateralized by the full faith and credit of the College. The College has collateralized its obligation under the guarantees by granting an interest in (i) unrestricted revenues, (ii) the tangible personal property, fixtures, equipment, furnishings and certain buildings and land, (iii) the proceeds from disposition of such tangible personal property, fixtures and equipment and furnishings, and (iv) proceeds of any insurance thereon and condemnation awards thereon.

Under the terms of the various debt documents, the College covenants, among other things, that it will generate certain levels of net revenue as defined in the agreements, abide by limitations on the size of deficits incurred as defined by the agreements, and maintain certain minimum endowment fund investments. The College is in compliance with these covenants as of June 30, 2018 and 2017.

NOTE 7 – LINE OF CREDIT AGREEMENT

The College has a $6,000,000 line of credit agreement with a bank. The line of credit is unsecured and bears interest at LIBOR plus 2.35%. As of June 30, 2018 and 2017, there were no amounts outstanding on the line of credit.

NOTE 8 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The College sponsors a post-retirement health care plan covering retirees and eligible spouses and employees who have met certain eligibility requirements. The plan is contributory for retirees with a retirement date prior to July 1, 1998. The College contributions are currently set at 100% of the required premium for the retiree and 0% for the covered spouse for individuals who held the rank of associate or full professor, or attained age 50, or have completed 15 years of full-time service by September 1, 2004. Individuals who did not meet the aforementioned criteria by September 1, 2004, receive 50% of the required premium for the retiree. All new employees who began employment after September 1, 2004, are not covered.

	2018	2017
Change in Projected Benefit Obligation		
Benefit obligation at beginning of year	$ 15,558,437	$ 15,929,967
Interest cost	627,880	556,862
Actuarial (gain) loss	(780,215)	(356,525)
Assumptions	(1,483,659)	(261,509)
Service cost	161,063	189,025
Benefit payments	(408,197)	(499,383)
Benefit Obligation at End of Year	$ 13,675,309	$ 15,558,437

	2018	2017
Change in Fair Value of Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	408,197	499,383
Employee contributions	218,892	208,503
Benefit payments	(627,089)	(707,886)
Fair Value of Plan Assets at End of Year	$ -	$ -

Assumptions

Weighted average assumptions used to determine benefit obligations:

	2018	2017
Discount rate	4.12%	3.75%

The effect of a one-percentage point increase in the assumed healthcare cost trend rates for each future year on the aggregate of the service and interest cost components of the net periodic postretirement health care benefit cost is $147,000 and the accumulated postretirement benefit obligation is $2,452,000.

NOTE 8 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (cont.)

Net periodic pension cost

	2018	2017
Service cost	$ 161,063	$ 189,025
Interest cost	627,880	556,862
Actuarial (gain)/loss	(2,263,874)	(618,034)
Totals	$ (1,474,931)	$ 127,853

The amount expected to be recognized in net periodic cost for the years ended June 30, 2018 and 2017 for loss recognition is $0 for each year.

Healthcare cost trend assumptions

	2018	2017
Initial trend rate	5%	5%
Ultimate trend rate	5%	5%
Years until ultimate is reached	-	-

Other changes in plan assets and benefit obligation recognized

	2018	2017
Net actuarial (gain)/loss	$ (197,869)	$ (67,223)
Totals	$ (197,869)	$ (67,223)

Expected future benefit payments

The benefit payments and plan contributions, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year ending June 30,	
2019	$ 481,000
2020	505,000
2021	533,000
2022	560,000
2023	591,000
2024-2028	3,387,000

NOTE 8 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (cont.)

Medicare Prescription Drug Act

The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides for a direct government subsidy for employers who continue to offer a retiree drug program that is deemed to be actuarially equivalent to the government plan. The federal government will pay a subsidy to employers who continue to offer prescription drug coverage if the employer provided benefit is "actuarially equivalent" to the Medicare Part D benefit.

Based on available guidance, the College does not believe that benefits under the Postretirement Medical and Life Insurance Plan are "actuarially equivalent" to the Medicare Part D benefit. Therefore, the accumulated postretirement benefit obligation and the net periodic postretirement benefits disclosed do not reflect any amount associated with the subsidy, nor do they reflect any anticipated reduction in costs due to employees waiving employer coverage and enrolling in Medicare Part D.

NOTE 9 – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The College measures the fair value for their investments in alternative investments based on net asset value ("NAV") per share of the investment as provided by investment managers, as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the College's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the College sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. In accordance with Subtopic 820-10, investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	$ 17,940,041	$ -	$ 17,940,041	$ -
Investments:				
Cash and cash equivalents	1,262,651	1,140,568	122,083	-
Equities				
Domestic	5,298,406	-	5,298,406	-
Foreign	2,320,261	-	2,320,261	-
Domestic fixed income	729,818	-	729,818	-
Annuity funds	1,782,831	-	-	1,782,831
Real estate	455,300	-	455,300	-
Funds held in trust by others	659,915	-	-	659,915
Funds held in trust	3,472,558	3,472,558	-	-
Subtotal investments by valuation hierarchy	$ 33,921,781	$ 4,613,126	$ 26,865,909	$ 2,442,746
Investments measured using NAV				
Alternative investments				
Private equity	6,265,609			
Real assets	1,156,315			
Real estate	880,187			
Multi-strategy	64,409,086			
Subtotal investments measured using NAV	72,711,197			
Total investments	$ 106,632,978			
Interest rate swap agreement	$ 401,754	$ -	$ 401,754	$ -

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	$ 21,648,459	$ -	$ 21,648,459	$ -
Investments:				
Cash and cash equivalents	2,063,710	1,908,376	155,334	-
Equities				
Domestic	5,470,661	-	5,470,661	-
Foreign	2,023,203	-	2,023,203	-
Domestic fixed income	701,975	-	701,975	-
Annuity funds	1,821,232	-	-	1,821,232
Real estate	455,300	-	455,300	-
Funds held in trust by others	639,759	-	-	639,759
Funds held in trust	2,994,398	2,994,398	-	-
Subtotal assets by valuation hierarchy	$ 37,818,697	$ 4,902,774	$ 30,454,932	$ 2,460,991
Assets measured using NAV				
Alternative investments				
Private equity	7,076,643			
Real assets	1,223,497			
Real estate	1,056,893			
Multi-strategy	57,835,547			
Subtotal assets measured using NAV	67,192,580			
Total assets	$ 105,011,277			
LIABILITIES				
Interest rate swap agreement	$ 307,309	$ -	$ 307,309	$ -

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Short-term investments – The fair value of short-term investments, consisting primarily of money market funds and municipal and corporate bonds, is classified as Level 2 as the fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

Cash and cash equivalents – Cash and cash equivalents classified as level 1 represent demand deposits and other investments with purchased maturities of 90 days or less and their value is based on quoted prices in active markets. Those cash and cash equivalents which are classified as level 2 consist primarily of money market funds, whose fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Equities – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 if they are traded in an active market for which closing stock prices are readily available. They are classified as Level 2 when the investment is not traded in active markets.

Fixed income securities – Investments in fixed income securities are comprised of commingled trust funds which are not actively traded, and are classified as a level 2.

Annuity funds – The fair value of annuity funds is classified as level 3 as the fair value is based on a combination of level 2 inputs (interest rate, individual's age, payment, and term) and significant unobservable inputs (individual or specific estimates of cash flows).

Investment in real estate – Investments in land are classified as level 2 as fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Funds held in trust by others – The College's beneficial interest in funds held in trust administered by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rate and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the College has an irrevocable right to receive the income earned from the trust's assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trust's assets.

Funds held in trust – Funds held in trust are based on quoted market prices in active markets and are classified as Level 1 inputs. These investments primarily are money market funds, certificates of deposit, and mutual funds.

Interest rate swaps – Interest rate swaps are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

There have been no changes in the techniques and inputs used as of June 30, 2018 and 2017.

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

	Balance June 30, 2017	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Settlement	Balance June 30, 2018
Assets						
Funds held in trust by others	$ 639,759	$ 20,156	$ -	$ -	$ -	$ 659,915
Annuity funds	1,821,232	(38,401)	-	-	-	1,782,831
Totals	$ 2,460,991	$ (18,245)	$ -	$ -	$ -	$ 2,442,746

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) relating to assets measured at fair value still held at June 30, 2018. $ (18,245)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2017:

	Balance June 30, 2016	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Settlement	Balance June 30, 2017
Assets						
Funds held in trust by others	$ 569,708	$ 70,051	$ -	$ -	$ -	$ 639,759
Annuity funds	1,847,233	(26,001)	-	-	-	1,821,232
Totals	$ 2,416,941	$ 44,050	$ -	$ -	$ -	$ 2,460,991

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) relating to assets measured at fair value still held at June 30, 2017. $ 44,050

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

A summary of the significant categories of such investments that calculate NAV (or its equivalent) and their attributes as of June 30, 2018 are as follows:

Assets	Fair value at NAV	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real estate funds	$ 880,187	$ 240,589	Illiquid	N/A
Private equity funds	6,265,609	1,211,733	Illiquid	N/A
Real assets	1,156,315	369,315	Illiquid	N/A
Multi-strategy	64,409,086	-	30-90 days	180 days
Totals	$ 72,711,197	$ 1,821,637		

Real estate funds - This category includes real estate funds that invest primarily in the U.S. and are diversified across sectors. These investments can never be redeemed from the funds. Distributions from each fund will be received as the underlying investments in the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated 7 to 10 years after initial investment. As of June 30, 2018, the College's real estate portfolio consists of two funds, the oldest of which began making underlying investments in 2005. The fair values of the investments in this category have been derived using the net asset value of the College's ownership interest in Partners' Capital. Partners' Capital for each fund has been prepared in accordance with fair value methodology as outlined by U.S. GAAP and ASC Topic 820, *Fair Value Measurements and Disclosures*.

Private equity funds - This category includes several private equity funds that are diversified by strategy, region, and vintage year. These investments can never be redeemed from the funds. Distributions from each fund will be received as the underlying investments in the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated 5 to 10 years after initial investment. As of June 30, 2018, the College's private equity portfolio consists of 16 funds, with vintage years ranging from 2001 to 2011. The fair values of the investments in this category have been derived using the net asset value of the College's ownership interest in Partners' Capital. Partners' Capital for each fund has been prepared in accordance with U.S. GAAP and ASC Topic 820, *Fair Value Measurements and Disclosures*.

Real asset funds - This category includes funds that invest primarily in timber, energy, and infrastructure; these investments are primarily in the U.S. and diversified by strategy. These investments can never be redeemed from the funds. Distributions from each fund will be received as the underlying investments in the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated 7 to 10 years after initial investment. As of June 30, 2018, the College's real asset portfolio consists of two funds, the oldest of which began making underlying investments in 2007. The fair values of the investments in this category have been derived using the net asset value of the College's ownership interest in Partners' Capital. Partners' Capital for each fund has been prepared in accordance with U.S. GAAP and ASC Topic 820, *Fair Value Measurements and Disclosures*.

Multi-Strategy funds - This category includes one fund with a globally diverse mix of public and private assets. The fund invests in hedge funds, private equity funds, as well as exchange traded funds. The fair values of the investments in this category have been derived using the net asset value of the College's ownership interest in Partners' Capital. Partners' Capital for each fund has been prepared in accordance with U.S. GAAP and ASC Topic 820, *Fair Value Measurements and Disclosures*.

NOTE 10 – DERIVATIVE INSTRUMENTS

The College uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreements are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

Interest rate exchange agreements between the College and a third party (counterparty) provide for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the College's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreements contain collateral provisions applicable to both parties to mitigate credit risk. The College does not anticipate non-performance by its counterparties.

In fiscal 2018, the College paid $92,099 more than it received in interest under the swap agreements. In fiscal 2017, the College paid $240,527 more than it received in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as interest expense in the statements of activities.

Asset / Liability on Swap

On February 22, 2005, the College entered into a basic swap (the Basic Swap) in connection with the Series of 2001 revenue note. The College received a cash payment from Wachovia Bank, National Association (the Swap Provider), in the amount of $800,000, which was recorded as a liability in the statement of financial position. In return for receiving the option payment, the College has agreed to receive 65% of LIBOR, plus .25% and to pay the Swap Provider the monthly BMA index rate. Both calculations will be made Thursday of every week and the net cash flows will be settled on the fifteenth day of each month, commencing March 15, 2005, for the preceding month. The notional amount at June 30, 2018 is $18,920,000.

The Basic Swap amortizes as the Series 2001 revenue notes amortize and the term of the Basic Swap expires December 15, 2027. The College issued a Swap Revenue Note to the Swap Provider, providing a parity lien in the College's unrestricted revenues.

On December 15, 2015, concurrent with the issuance of the 2016 Loan, the College entered into a fixed rate swap agreement (the Fixed Rate Swap) with Fulton Bank, N.A., as the swap counterparty, in the amount of $20,560,000. Under the terms of the Fixed Rate Swap, the College pays a fixed rate equal to 3.36% and receives 80% of 30-day Libor, plus 1.55%. The amortization of the Fixed Rate Swap is the same as the 2016 loan amortization and the term of the Fixed Rate Swap expires December 15, 2027.

On January 4, 2018, concurrent with the issuance of the Series 2018 revenue bonds, the College entered into a fixed rate swap agreement (the 2018 Fixed Rate Swap) with Fulton Bank, N.A., as the swap counterparty, in the amount of $10,000,000. Under the terms of the 2018 Fixed Rate Swap, the College pays a fixed rate equal to 3.873% and receives 82% of LIBOR plus 1.94%, reset monthly. The amortization of the 2018 Fixed Rate Swap begins on August, 15, 2019 and the term of the Fixed Rate Swap expires August 15, 2029.

NOTE 10 – DERIVATIVE INSTRUMENTS (cont.)

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2018 and 2017 as follows:

Derivatives Not Designated as Hedging Instruments	Assets (Liabilities) Derivative		
	Statement of Financial Position Location	Fair Value	
		2018	2017
Basic Swap - 2005	Interest rate swap agreement	$ (31,644)	$ (100,448)
Fixed Rate Swap - 2015	Interest rate swap agreement	352,178	(206,861)
Fixed Rate Swap - 2018	Interest rate swap agreement	81,220	-
	Totals	$ 401,754	$ (307,309)

The effect of derivative instruments is reported in the statements of activities as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in the Statement of Activities	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Activities	
		2018	2017
Basic Swap - 2005	Gain (loss) on interest rate swap	$ 68,804	$ (143,123)
Fixed Rate Swap - 2015	Gain (loss) on interest rate swap	559,039	894,789
Fixed Rate Swap - 2018	Gain (loss) on interest rate swap	81,220	-
	Totals	$ 709,063	$ 751,666

NOTE 11 – NET ASSETS

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

	2018	2017
Annuity contract and trust assets	$ 2,314,241	$ 2,234,233
Capital projects	22,023,106	14,206,234
Temporarily restricted pledges	4,461,848	5,350,028
Scholarships, awards, etc.	1,674,290	1,711,237
Investments - including the accumulated change in market value in excess of the PA Trust limitation	13,195,130	21,384,389
Totals	$ 43,668,615	$ 44,886,121

NOTE 11 – NET ASSETS (cont.)

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

	2018	2017
Annuity contract and trust assets	$ 1,876,352	$ 1,730,264
Pledges related to the endowment	636,947	659,318
Investments - principal	37,998,576	37,374,309
Totals	$ 40,511,875	$ 39,763,891

During the course of the year, net assets whose use by the College were subject to donor-imposed restrictions were fulfilled by actions of the College pursuant to those restrictions, the expiration of time, or the designation of law. These assets are shown in the statements of activities as a release of net assets from temporary and permanent restrictions. A detail of the net assets released from restrictions for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Assets released for		
Capital projects	$ 6,089,316	$ 1,949,547
Scholarships, professorships, awards, etc.	2,739,572	1,775,873
Other donor designated spending	2,372,868	1,075,047
Write off of temporarily restricted plant pledges	70,000	248,250
Totals	$ 11,271,756	$ 5,048,717

NOTE 12 – ENDOWMENTS

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The College's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as quasi-endowments.

NOTE 12 – ENDOWMENTS (cont.)

Interpretation of Relevant Law

The Board of Trustees of the College has interpreted Commonwealth of Pennsylvania Act 141 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the “historic dollar value” of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as “net appreciation” is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the College’s spending policy.

Endowment Investment Policy

The College has adopted an investment policy that is intended to:

- protect the future purchasing power of the principal of endowed funds by reserving an appropriate portion of investment return to offset the cumulative effects of inflation, and provide future real growth of the Fund;
- provide a source of income to support the activities of Elizabethtown College or those designated by the donor; and
- manage the spending distribution over time to reduce, as far as possible, annual variations in the level of support provided by the endowment.

The return objective is an average annual total real (inflation adjusted) rate of return of 5% to 6%, as measured over a three to five year market period.

Endowment Spending Policy

The College’s target annual distribution from the endowment is 4% of the trailing 12 quarters’ average market value. The percentage expended for the years ended June 30, 2018 and 2017 was 5.70% and 3.81% respectively. In addition, the Commonwealth of Pennsylvania law permits organizations to allocate to income each year a portion of permanently restricted investment net gains under a total return spending rate policy, not to exceed 7% of the average market value of the assets for the preceding three years. The College has authorized a draw down of 6% and 4% in fiscal 2018 and 2017, respectively. To the extent that actual income from these permanently restricted investments is less than the predetermined amount, accumulated gains are made available for operations to fund the difference. For financial statement purposes, any excess of accumulated gains or accumulated losses are recorded as temporarily restricted net assets. Investment return in excess of or less than the spending distribution is reported as a component of temporarily restricted investment income. The Board expects a 6% draw for the upcoming June 30, 2019 fiscal year.

NOTE 12 – ENDOWMENTS (cont.)

Strategies Employed for Achieving Objectives

As a permanent fund, the investment objectives for the endowment require disciplined and consistent management that accommodates all those events which are relevant, reasonable, and probable. The management of the endowment should ensure a total return (yield plus capital appreciation) sufficient to preserve and enhance, in real dollar terms, the principal funds endowed to support the College.

The investments of the endowment shall be appropriately diversified so as to maximize expected returns while controlling risk.

Unless otherwise indicated, Investment Managers will have complete investment discretion based on the expectation that the assets of the Fund will be invested with care, skill, prudence and diligence.

The asset mix, consistent with the return objective, will range within the following limits:

	Range
Total Return Assets	30 to 80%
Hedging Assets	20 to 70%

When a limit of the target range is reached, the Investment Committee will discuss with the investment office manager an appropriate target mix. The total return allocation may include equity-like volatility investments (e.g. equities, directional hedge funds, real estate, private equity, etc.) and the hedging allocation may include bond investments, commodity investments, cash and other hedging instruments.

NOTE 12 – ENDOWMENTS (cont.)

Endowment net asset composition by type of fund consists of the following as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$28,952,610	$38,573,903	$67,526,513
Board-designated endowment funds	16,274,127	-	-	16,274,127
Total Endowment Net Assets	$16,274,127	$28,952,610	$38,573,903	$83,800,640

Endowment net asset composition by type of fund consists of the following as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$27,092,289	$37,970,634	$65,062,923
Board-designated endowment funds	15,766,889	-	-	15,766,889
Total Endowment Net Assets	$15,766,889	$27,092,289	$37,970,634	$80,829,812

Changes in endowment net assets for the year ended June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	$ 15,766,889	$ 27,092,289	$ 37,970,634	$ 80,829,812
Investment return:				
Investment income	114,507	465,070	-	579,577
Net gains	1,257,407	4,905,149	-	6,162,556
Investment fees	(11,117)	(44,439)	-	(55,556)
Total investment return	1,360,797	5,325,780	-	6,686,577
Contributions and other additions	-	-	603,269	603,269
Operation draw	(853,559)	-	-	(853,559)
Appropriation of endowment assets for expenditure	-	(3,465,459)	-	(3,465,459)
Endowment Net Assets, June 30, 2018	$ 16,274,127	$ 28,952,610	$ 38,573,903	$ 83,800,640

NOTE 12 – ENDOWMENTS (cont.)

Changes in endowment net assets for the year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ 14,725,716	$ 23,196,663	$ 35,454,441	$ 73,376,820
Investment return:				
Investment income	195,229	764,321	-	959,550
Net gains	1,381,421	5,412,206	-	6,793,627
Investment fees	(10,229)	(39,688)	-	(49,917)
Total investment return	1,566,421	6,136,839	-	7,703,260
Contributions and other additions	-	-	2,516,193	2,516,193
Operation draw	(525,248)	-	-	(525,248)
Appropriation of endowment assets for expenditure	-	(2,241,213)	-	(2,241,213)
Endowment Net Assets, June 30, 2017	$ 15,766,889	$ 27,092,289	$ 37,970,634	$ 80,829,812

NOTE 13 – BE INSPIRED CAMPAIGN

In 2013, the College launched the BE INSPIRED campaign with the goal of raising $50 million in support of the College's priorities of fulfilling dreams, transforming lives and building community. These priorities will ensure that the impact of an Elizabethtown College education is long-lasting and far-reaching and students will be more prepared than ever before to leave their mark on the world in a variety of meaningful ways. As of June 30, 2018 the College has recorded $42 million in gifts received or written pledges as part of this campaign. Verbal commitments and bequest expectancies are both considered gifts towards our campaign goals but are not reflected in the College's financial statements until verbal commitments are pledged in writing and bequests are received in cash.

NOTE 14 – RETIREMENT PLAN

The College has a 403(b) retirement plan for qualified employees. The College contributes 11.5% of participating employees' annual salaries employed prior to September 1, 2004. For employees hired after August 31, 2004, the College contributes 10% of participating employees' annual salaries. The expense for the retirement plan for the years ended June 30, 2018 and 2017 amounted to $2,235,535 and $2,465,754, respectively.

NOTE 15 – RELATED PARTY TRANSACTIONS

During the normal course of business, the College purchases various supplies and services from companies associated with Board members which approximated $8,568,816 and $3,530,013 for the years ended June 30, 2018 and 2017, respectively.

In addition, the College has recorded revenue related to pledges receivable from employees and trustees. As of June 30, 2018 and 2017, pledges receivable due from employees and trustees amounted to approximately $1,171,022 and $1,732,877, respectively.

NOTE 16 – EXPENSES

Expenses by natural classification for the years ended June 30 were:

	2018	2017
Salaries and benefits	$ 38,830,738	$ 41,439,640
Auxiliary cost of sales	2,619,571	2,705,125
Depreciation and amortization	4,238,820	4,475,516
Interest on indebtedness	1,340,101	1,510,524
Equipment repair and maintenance	2,920,533	3,029,759
Utilities	1,896,904	2,149,795
Student employees	1,613,688	1,654,145
Professional services	1,654,394	1,347,316
Other	9,308,453	8,665,076
Totals	$ 64,423,202	$ 66,976,896

Expenses by functional classification for the years ended June 30 were:

	2018	2017
Education and general		
Instruction	$ 29,918,717	$ 30,506,460
Academic support	2,890,696	3,024,536
Student services	9,121,762	9,128,775
Institutional support	14,124,856	15,668,824
Auxiliary enterprises	8,367,171	8,648,301
Totals	$ 64,423,202	$ 66,976,896

NOTE 17 – CONTINGENCIES AND COMMITMENTS

The College has further capital commitments for investments of $1,821,637 and $2,087,344 at June 30, 2018 and 2017, respectively.

As of June 30, 2018, the College has committed approximately $18,900,000 of costs related to significant ongoing capital projects.

Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the College's educational activities. While the ultimate disposition of such contingencies is not determinable at this time, management believes that any liability resulting from these will not materially affect the financial position of the College as of June 30, 2018.

NOTE 18 – SUBSEQUENT EVENTS

The College evaluated its June 30, 2018 financial statements for subsequent events through October 29, 2018, the date the financial statements were issued.