

ELIZABETHTOWN COLLEGE

Elizabethtown, Pennsylvania

AUDIT REPORT ON FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2017 and 2016

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, 2017 and 2016, 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.

To the Board of Trustees
Elizabethtown College

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, 2017 and 2016, 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 30, 2017

ELIZABETHTOWN COLLEGE

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2017 and 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,433,734	\$ 5,559,915
Short-term investments	13,203,549	14,746,565
Accounts and notes receivable		
Students (net of allowance for uncollectible accounts of \$54,492 and \$41,996 in 2017 and 2016, respectively)	1,133,537	900,083
Other	364,253	289,473
Inventories	402,938	436,620
Prepaid expenses	819,720	917,833
Pledges receivable due in less than one year (net of allowance for uncollectible pledges of \$138,140 and \$29,700 in 2017 and 2016, respectively)	1,375,509	1,120,796
Total current assets	25,733,240	23,971,285
Funds held in trust	2,994,398	3,160,744
Pledges receivable (net of allowance for uncollectible pledges of \$207,381 and \$314,351 in 2017 and 2016, respectively)	4,633,837	3,722,706
Student loans (net of allowance for uncollectible loans of \$60,000 in 2017 and 2016)	1,455,623	1,425,146
Investments	80,368,420	73,754,253
Property, plant and equipment (net of accumulated depreciation of \$74,399,047 and \$69,946,219 in 2017 and 2016, respectively)	77,857,135	77,036,790
TOTAL ASSETS	\$ 193,042,653	\$ 183,070,924
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,240,391	\$ 1,595,948
Accrued salaries, wages and benefits	1,665,938	1,588,917
Deposits and agency funds	1,596,522	1,607,302
Current liability on annuity contracts and trusts	113,296	112,689
Current portion of long-term debt	2,984,534	1,191,622
Total current liabilities	7,600,681	6,096,478
Advances from federal government for student loans	1,250,276	1,250,276
Annuity contracts and trusts liability	3,542,836	3,658,514
Post-retirement liability	15,558,437	15,929,967
Interest rate swap agreement	307,309	1,058,975
Long-term debt	29,755,039	32,304,519
Total liabilities	58,014,578	60,298,729
NET ASSETS		
Unrestricted	50,378,063	47,864,993
Temporarily restricted	44,886,121	37,654,529
Permanently restricted	39,763,891	37,252,673
Total net assets	135,028,075	122,772,195
TOTAL LIABILITIES AND NET ASSETS	\$ 193,042,653	\$ 183,070,924

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

ELIZABETHTOWN COLLEGE

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017 with comparative totals for 2016

	2017			2016
	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 (loss) on investments	1,775,615	5,424,851	-	7,200,466
Gain (loss) 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	5,700,705	-	-	5,700,705
Depreciation and amortization	4,475,517	-	-	4,475,517
Interest	1,510,524	-	-	1,510,524
Auxiliary enterprises	7,622,766	-	-	7,622,766
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

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE				
Student related revenue				
Student tuition and fees, gross	\$ 80,585,767	\$ -	\$ -	\$ 80,585,767
Less tuition discount	(37,457,635)	-	-	(37,457,635)
Student tuition and fees, net	43,128,132	-	-	43,128,132
Auxiliary enterprises	17,512,584	-	-	17,512,584
Private gifts and grants	1,119,489	3,980,843	1,750,925	6,851,257
Government grants	965,426	-	-	965,426
Investment income	291,413	559,498	-	850,911
Loss on investments	(274,183)	(738,209)	-	(1,012,392)
Loss on interest rate swap	(1,041,665)	-	-	(1,041,665)
Other	161,862	-	-	161,862
Net assets released from restrictions	3,280,282	(3,175,282)	(105,000)	-
Total revenue	65,143,340	626,850	1,645,925	67,416,115
EXPENSES				
Instruction	24,589,226	-	-	24,589,226
Academic support	2,297,160	-	-	2,297,160
Student services	7,331,423	-	-	7,331,423
Institutional support	11,653,734	-	-	11,653,734
Facilities				
Operation and maintenance of plant	6,132,302	-	-	6,132,302
Depreciation and amortization	3,894,422	-	-	3,894,422
Interest	2,121,695	-	-	2,121,695
Auxiliary enterprises	7,443,574	-	-	7,443,574
Total expenses	65,463,536			65,463,536
Change in net assets	(320,196)	626,850	1,645,925	1,952,579
NET ASSETS				
Net assets, beginning of year	48,185,189	37,027,679	35,606,748	120,819,616
END OF YEAR	\$ 47,864,993	\$ 37,654,529	\$ 37,252,673	\$ 122,772,195

ELIZABETHTOWN COLLEGE

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,255,880	\$ 1,952,579
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation of property and equipment	4,452,828	3,885,245
Amortization of bond issuance costs	22,689	396,977
Write-off of bond discount	-	(292,301)
Accretion of bond discount	-	(15,383)
Provision for uncollectible accounts	322,158	462,795
Net loss (gain) on investments	(7,200,466)	1,012,392
Loss (gain) on swap	(751,666)	1,041,665
Loss on disposal of assets	418,621	145,810
Permanently restricted gifts and donations received	(1,782,404)	(1,538,724)
Changes in assets and liabilities		
Actuarial liability for annuities payable	(115,071)	171,800
Short-term investments	1,543,016	(5,647,747)
Due from students	(233,454)	41,627
Accounts receivable	(153,218)	(10,221)
Pledges receivable	(1,409,564)	587,259
Inventories	33,682	(3,059)
Prepaid expenses	98,113	(671,894)
Accounts payable	(1,023,673)	(610,536)
Accrued salaries and wages	77,021	(140,766)
Deposits and agency funds	(10,780)	336,844
Post-retirement liability	(371,530)	1,597,866
Net cash flows from operating activities	<u>6,172,182</u>	<u>2,702,228</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,104,813)	(3,666,483)
Proceeds from sales of investments	3,691,112	5,071,878
Purchase of property and equipment	(5,023,678)	(3,220,172)
Decrease in funds held in trust	166,346	978,976
Loan disbursements to students	(270,742)	(329,000)
Repayments of students loans	240,265	233,723
Net cash flows from investing activities	<u>(4,301,510)</u>	<u>(931,078)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt	(779,257)	(4,736,828)
Debt issuance costs	-	(212,728)
Permanently restricted gifts and donations received	1,782,404	1,538,724
Net cash flows from financing activities	<u>1,003,147</u>	<u>(3,410,832)</u>
Net change in cash and cash equivalents	<u>2,873,819</u>	<u>(1,639,682)</u>
Cash and cash equivalents		
Beginning of year	<u>5,559,915</u>	<u>7,199,597</u>
END OF YEAR	<u>\$ 8,433,734</u>	<u>\$ 5,559,915</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 1,510,424</u>	<u>\$ 2,121,695</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Capitalized construction costs included as accounts payable	\$ 668,116	\$ 428,858
Refinancing of 2006 bonds with proceeds from 2016 debt issue	-	20,560,000

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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 market. Cost is determined by the first-in, first-out method.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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

Investments

The College records investments at fair value. Equity securities and mutual funds are valued at quoted market prices. 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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016, advertising related costs amounted to \$452,238 and \$405,021, respectively.

Fundraising Expenses

The College follows the policy of expensing the costs of fundraising when incurred. For the years ended June 30, 2017 and 2016, fundraising costs amounted to \$1,815,748 and \$1,779,868, 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, 2017 and 2016. 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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2017 and 2016

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

New Accounting Pronouncement Not Yet Effective

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). Early application is permitted for fiscal years beginning after December 15, 2016. The College is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The College is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019), with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

NOTE 2 – LONG TERM INVESTMENTS

Investments consisted of the following at June 30:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 2,063,710	\$ 2,063,710	\$ 2,080,704	\$ 2,080,704
Equities	6,306,347	7,493,864	6,507,739	7,088,065
Fixed income	713,168	701,975	692,073	690,561
Annuity funds	1,821,232	1,821,232	1,819,224	1,847,233
Alternative investments	59,451,277	67,192,580	54,879,080	61,022,682
Real estate	455,300	455,300	455,300	455,300
Funds in trust	639,759	639,759	569,708	569,708
Totals	<u>\$ 71,450,793</u>	<u>\$ 80,368,420</u>	<u>\$ 67,003,828</u>	<u>\$ 73,754,253</u>

The fair value of the total endowment assets included in long term investments amounted to \$76,065,139 and \$69,681,864 at June 30, 2017 and 2016, respectively. Included in those amounts are quasi-endowment assets of \$15,766,889 and \$14,725,716 at June 30, 2017 and 2016, respectively.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016, student loans represented less than 1% of total assets.

At June 30, student loans consisted of the following:

	2017	2016
Federal government programs	\$ 1,408,251	\$ 1,385,416
Institutional programs	107,372	99,730
	1,515,623	1,485,146
Less allowance for doubtful accounts End of year	(60,000)	(60,000)
Student loans receivable, net	\$ 1,455,623	\$ 1,425,146

Funds advanced by the Federal government of \$1,250,276 at both June 30, 2017 and 2016 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.

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

<u>June 30</u>	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
2017	\$ 2,974	\$ 555	\$ 107,082	\$ 110,611
2016	191	606	98,269	99,066

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2017 and 2016

NOTE 4 – PLEDGES RECEIVABLE

As of June 30, 2017 and 2016, donors to the College have made written promises to give totaling \$6,470,704 and \$5,435,342 respectively, on which management has established a reserve for uncollectible pledges of \$345,521 and \$344,051, respectively. Discounts on pledges receivable were \$115,837 and \$247,789 at June 30, 2017 and 2016, 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 2017 and for 2016. The discounted pledges, net of allowance as of June 30, 2017 are scheduled to be collected as follows:

	Temporarily Restricted	Permanently Restricted	Total
Less than one year	\$ 1,296,719	\$ 78,790	\$ 1,375,509
One to three years	2,026,573	143,243	2,169,816
Three to five years	1,006,681	143,978	1,150,659
More than five years	1,020,055	293,307	1,313,362
Totals	<u>\$ 5,350,028</u>	<u>\$ 659,318</u>	<u>\$ 6,009,346</u>

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:

	2017	2016
Land and improvements	\$ 19,194,209	\$ 19,194,209
Buildings	118,228,623	116,017,781
Furniture and equipment	11,282,084	8,919,836
Construction in process	3,551,266	2,851,183
	<u>152,256,182</u>	<u>146,983,009</u>
Less: Accumulated depreciation	(74,399,047)	(69,946,219)
Totals	<u>\$ 77,857,135</u>	<u>\$ 77,036,790</u>

The College recorded depreciation expense of \$4,452,828 and \$3,885,245 for the years ended June 30, 2017 and 2016, respectively.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

NOTE 6 – LONG-TERM DEBT

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

Description	Maturity Dates	Interest Rates	Principal Balance	
			2017	2016
2016 Revenue bond	2028	1.90%	\$ 19,290,000	\$ 20,560,000
Series 2009 Revenue bonds	2029	2.38%	10,813,480	11,398,480
Mortgage payable	2018	5.00%	73,001	108,717
2002 Refinancing bonds	2020	2.38%	1,131,779	1,537,043
Capital leases	2022	1.20%	1,683,947	167,224
			<u>32,992,207</u>	<u>33,771,464</u>
Unamortized bond issuance costs			<u>(252,634)</u>	<u>(275,323)</u>
			<u>\$ 32,739,573</u>	<u>\$ 33,496,141</u>

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 2006 Fixed Rate Bonds were paid, in full, on June 15, 2016, at 100% of the principal amount outstanding, plus the accrued interest to the date of redemption.

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 fixed rate of 2.38% through June 2015 and a variable rate from June 2015 through June 2029. At June 30, 2016, the rate remained at 2.38%. 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.

The proceeds of the Series 2006 FF2 Revenue bond were used to refinance the 2001 Revenue note. This transaction was considered a legal defeasance. The term of the bonds remained unchanged but the interest rate was reduced from 5.9% to 5.0%. These bonds were refinanced in 2016. The unamortized bond issuance costs and remaining premium related to the Series 2006 FF2 Revenue bonds were written off and a loss on debt refinancing in the amount of \$80,051 was recorded for the year ending June 30, 2016.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

NOTE 6 – LONG-TERM DEBT (cont.)

Aggregate maturities of long-term debt are as follows:

Year Ending June 30,	Maturities
2018	\$ 2,984,534
2019	3,057,514
2020	3,024,928
2021	2,531,453
2022	2,418,778
Thereafter	18,975,000
Total	<u>\$ 32,992,207</u>

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, 2017 and 2016.

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, 2017 and 2016, there were no amounts outstanding on the line of credit.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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.

	2017	2016
Change in Projected Benefit Obligation		
Benefit obligation at beginning of year	\$ 15,929,967	\$ 14,332,101
Interest cost	556,862	645,657
Actuarial (gain) loss	(356,525)	107,677
Assumptions	(261,509)	1,120,002
Service cost	189,025	180,614
Benefit payments	(499,383)	(456,084)
Benefit Obligation at End of Year	\$ 15,558,437	\$ 15,929,967

	2017	2016
Change in Fair Value of Plan Assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	499,383	456,084
Employee contributions	208,503	190,120
Benefit payments	(707,886)	(646,204)
Fair Value of Plan Assets at End of Year	\$ -	\$ -

Assumptions

Weighted average assumptions used to determine benefit obligations:

	2017	2016
Discount rate	3.75%	3.60%

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 \$123,000 and the accumulated postretirement benefit obligation is \$2,292,000.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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

Net periodic pension cost

	2017	2016
Service cost	\$ 189,025	\$ 180,614
Interest cost	556,862	645,657
Actuarial (gain)/loss	(618,034)	1,227,679
Totals	\$ 127,853	\$ 2,053,950

The amount expected to be recognized in net periodic cost for the years ended June 30, 2017 and 2016 for loss recognition is \$0 for each year.

Healthcare cost trend assumptions

	2017	2016
Initial trend rate	5%	5%
Ultimate trend rate	5%	5%
Years until ultimate is reached	-	-

Other changes in plan assets and benefit obligation recognized

	2017	2016
Net actuarial (gain)/loss	\$ (67,223)	\$ 107,677
Totals	\$ (67,223)	\$ 107,677

Expected future benefit payments

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

<u>Year ending</u> <u>June 30,</u>	
2018	\$835,000
2019	794,000
2020	806,000
2021	823,000
2022	838,000
2023-2027	4,401,000

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2017 and 2016

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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2017 and 2016

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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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	<u>\$ 37,818,697</u>	<u>\$ 4,902,774</u>	<u>\$ 30,454,932</u>	<u>\$ 2,460,991</u>
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	<u>67,192,580</u>			
Total assets	<u>\$ 105,011,277</u>			
LIABILITIES				
Interest rate swap agreement	<u>\$ 307,309</u>	<u>\$ -</u>	<u>\$ 307,309</u>	<u>\$ -</u>

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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, 2016 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 18,892,103	\$ -	\$ 18,892,103	\$ -
Investments:				
Cash and cash equivalents	2,080,704	1,932,504	148,200	-
Equities				
Domestic	5,244,233	-	5,244,233	-
Foreign	1,843,832	-	1,843,832	-
Domestic fixed income	690,561	-	690,561	-
Annuity funds	1,847,233	-	-	1,847,233
Real estate	455,300	-	455,300	-
Funds held in trust by others	569,708	-	-	569,708
Funds held in trust	3,160,744	3,160,744	-	-
Subtotal assets by valuation hierarchy	<u>\$ 34,784,418</u>	<u>\$ 5,093,248</u>	<u>\$ 27,274,229</u>	<u>\$ 2,416,941</u>
Assets measured using NAV				
Alternative investments				
Private equity	9,131,867			
Real assets	1,244,098			
Real estate	1,404,090			
Multi-strategy	49,242,627			
Subtotal assets measured using NAV	<u>61,022,682</u>			
Total assets	<u>\$ 95,807,100</u>			
LIABILITIES				
Interest rate swap agreement	<u>\$ 1,058,975</u>	<u>\$ -</u>	<u>\$ 1,058,975</u>	<u>\$ -</u>

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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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, 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

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, 2016:

	Balance June 30, 2015	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Settlement	Balance June 30, 2016
Assets						
Funds held in trust						
by others	\$ 325,501	\$ 244,207	\$ -	\$ -	\$ -	\$ 569,708
Annuity funds	2,389,255	(542,022)	-	-	-	1,847,233
Totals	\$ 2,714,756	\$ (297,815)	\$ -	\$ -	\$ -	\$ 2,416,941

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, 2016.

\$ (297,815)

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

NOTE 9 – FAIR VALUE MEASUREMENTS (cont.)

A summary of the significant categories of such investments and their attributes is as follows:

Assets	Fair value as of June 30, 2017	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real estate funds	\$ 1,056,893	\$ 295,510	Illiquid	N/A
Private equity funds	7,076,643	1,394,447	Illiquid	N/A
Real assets	1,223,497	397,387	Illiquid	N/A
Multi-strategy	57,835,547	-	30-90 days	180 days
Totals	<u>\$ 67,192,580</u>	<u>\$ 2,087,344</u>		

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, 2017, 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, 2017, 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, 2017, 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*.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2017 and 2016

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 2017, the College paid \$240,527 more than it received in interest under the swap agreements. In fiscal 2016, the College received \$77,625 more than it paid in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as investment income or interest expense in the statements of activities.

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 has been 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, 2017 is \$22,720,000.

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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and For the Years Ended June 30, 2017 and 2016

NOTE 10 – DERIVATIVE INSTRUMENTS (cont.)

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2017 and 2016 as follows:

Derivatives Not Designated as Hedging	Statement of Financial Position Location	Liabilities Derivative	
		Fair Value	
		2017	2016
Basic Swap	Interest rate swap agreement	\$ (100,448)	\$ 42,675
Fixed Rate Swap	Interest rate swap agreement	(206,861)	(1,101,650)
	Totals	<u>\$ (307,309)</u>	<u>\$ (1,058,975)</u>

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 Changes in Net Assets	
		2017	
		2017	2016
Basic Swap	Gain (loss) on interest rate swap	\$ (143,123)	\$ 59,985
Fixed Rate Swap	Gain (loss) on interest rate swap	894,789	(1,101,650)
	Totals	<u>\$ 751,666</u>	<u>\$ (1,041,665)</u>

NOTE 11 – NET ASSETS

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

	2017	2016
Annuity contract and trust assets	\$ 2,234,233	\$ 1,955,323
Capital projects	14,206,234	10,452,543
Temporarily restricted pledges	5,350,028	4,511,513
Scholarships, awards, etc.	1,711,237	1,195,093
Investments - including the accumulated change in market value in excess of the PA Trust limitation	21,384,389	19,540,057
Totals	<u>\$ 44,886,121</u>	<u>\$ 37,654,529</u>

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

NOTE 11 – NET ASSETS (cont.)

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

	<u>2017</u>	<u>2016</u>
Annuity contract and trust assets	\$ 1,730,264	\$ 1,730,264
Pledges related to the endowment	659,318	331,989
Investments - principal	<u>37,374,309</u>	<u>35,190,420</u>
Totals	<u>\$ 39,763,891</u>	<u>\$ 37,252,673</u>

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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Assets released for		
Capital projects	\$ 1,949,547	\$ 192,808
Scholarships, professorships, awards, etc.	1,775,873	1,791,703
Other donor designated spending	1,075,047	824,271
Write off of temporarily restricted plant pledges	248,250	366,500
Write off of permanently restricted endowment pledges	<u>-</u>	<u>105,000</u>
Totals	<u>\$ 5,048,717</u>	<u>\$ 3,280,282</u>

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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016 was 3.75% and 3.72% 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 4% in both fiscal 2017 and 2016. 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 4% draw for the upcoming June 30, 2018 fiscal year.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and For the Years Ended June 30, 2017 and 2016

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:

	<u>Range</u>
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.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

NOTE 12 – ENDOWMENTS (cont.)

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	<u>\$15,766,889</u>	<u>\$27,092,289</u>	<u>\$37,970,634</u>	<u>\$80,829,812</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$23,196,663	\$35,454,441	\$58,651,104
Board-designated endowment funds	14,725,716	-	-	14,725,716
Total Endowment Net Assets	<u>\$14,725,716</u>	<u>\$23,196,663</u>	<u>\$35,454,441</u>	<u>\$73,376,820</u>

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	<u>\$ 15,766,889</u>	<u>\$ 27,092,289</u>	<u>\$ 37,970,634</u>	<u>\$ 80,829,812</u>

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and For the Years Ended June 30, 2017 and 2016

NOTE 12 – ENDOWMENTS (cont.)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ 15,281,435	\$ 24,217,296	\$ 33,717,021	\$ 73,215,752
Investment return:				
Investment income	118,673	455,984	-	574,657
Net (loss)	(194,570)	(634,695)	-	(829,265)
Investment fees	(6,260)	(23,604)	-	(29,864)
Total investment return	(82,157)	(202,315)	-	(284,472)
Contributions and other additions	-	1,303,439	1,737,420	3,040,859
Operation draw	(473,562)	-	-	(473,562)
Appropriation of endowment assets for expenditure	-	(2,121,757)	-	(2,121,757)
Endowment Net Assets, June 30, 2016	<u>\$ 14,725,716</u>	<u>\$ 23,196,663</u>	<u>\$ 35,454,441</u>	<u>\$ 73,376,820</u>

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, 2017 the College has recorded \$35.2 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, 2017 and 2016 amounted to \$2,465,754 and \$2,419,960, respectively.

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2017 and 2016

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 \$3,530,013 and \$3,576,584 for the years ended June 30, 2017 and 2016, respectively.

In addition, the College has recorded revenue related to pledges receivable from employees and trustees. As of June 30, 2017 and 2016, pledges receivable due from employees and trustees amounted to approximately \$1,732,877 and \$1,787,410, respectively.

NOTE 16 – EXPENSES

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

	<u>2017</u>	<u>2016</u>
Salaries and benefits	\$41,439,640	\$ 39,741,086
Auxiliary cost of sales	2,705,125	2,846,704
Depreciation and amortization	4,475,516	3,894,422
Interest on indebtedness	1,510,524	2,121,695
Equipment repair and maintenance	3,029,759	3,203,685
Utilities	2,149,795	1,945,577
Student employees	1,654,145	1,706,633
Professional services	1,347,316	1,059,724
Other	8,665,076	8,944,010
Totals	<u>\$ 66,976,896</u>	<u>\$ 65,463,536</u>

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

	<u>2017</u>	<u>2016</u>
Education and general		
Instruction	\$ 30,200,134	\$ 30,192,144
Academic support	2,994,166	2,820,592
Student services	9,037,110	9,001,966
Institutional support	15,511,488	14,309,162
Auxiliary enterprises	9,233,998	9,139,672
Totals	<u>\$ 66,976,896</u>	<u>\$ 65,463,536</u>

ELIZABETHTOWN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and For the Years Ended June 30, 2017 and 2016

NOTE 17 – CONTINGENCIES AND COMMITMENTS

The College has further capital commitments for investments of \$2,087,344 and \$2,409,761 at June 30, 2017 and 2016, respectively.

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, 2017.

NOTE 18 – SUBSEQUENT EVENTS

The College evaluated its June 30, 2017 financial statements for subsequent events through October 30, 2017, the date the financial statements were issued.