



Financial Statements

Merrimack College

June 30, 2020 and 2019



MERRIMACK COLLEGE

Financial Statements

Table of Contents

Financial Statements:

Independent Auditors' Report	1-2
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-27



Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report

The Board of Trustees
Merrimack College
North Andover, Massachusetts

We have audited the accompanying financial statements of Merrimack College (the "College"), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Merrimack College as of June 30, 2020 and 2019, 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.

Maye Heyman McCann P.C.

September 10, 2020
Boston, Massachusetts

MERRIMACK COLLEGE

Statements of Financial Position

June 30,

	2020	2019
Assets		
Cash and cash equivalents	\$ 34,818,010	\$ 15,676,099
Contributions receivable, net	3,171,057	3,837,425
Accounts and loans receivable, net	6,289,840	5,754,828
Other assets	1,136,745	2,604,246
Investments	56,545,900	59,536,257
Deposits with bond trustees	9,518,131	20,294,059
Land, buildings, and equipment, net	165,510,697	159,577,108
Total assets	\$ 276,990,380	\$ 267,280,022
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 12,538,248	\$ 13,233,981
Student deposits and deferred revenue	16,738,128	12,185,985
Bonds payable	108,888,888	110,731,796
Refundable U.S. government grants for student loans	1,066,992	1,350,313
Total liabilities	139,232,256	137,502,075
Net assets:		
Without donor restrictions	86,711,588	78,410,854
With donor restrictions	51,046,536	51,367,093
Total net assets	137,758,124	129,777,947
Total liabilities and net assets	\$ 276,990,380	\$ 267,280,022

MERRIMACK COLLEGE

Statement of Activities

Year Ended June 30, 2020
(with comparative totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenue:				
Tuition and fees, net (less scholarship aid to students of \$83,897,610 and \$74,002,739, respectively)	\$ 104,098,732	\$ -	\$ 104,098,732	\$ 90,548,391
Grant revenues	1,968,186	-	1,968,186	2,474,296
Contributions	348,672	2,917,743	3,266,415	1,966,643
Investment return utilized for operations	856,742	2,006,393	2,863,135	2,712,713
Auxiliary enterprises	34,310,457	-	34,310,457	37,800,686
Other revenue	3,615,378	-	3,615,378	3,983,264
Total revenues	145,198,167	4,924,136	150,122,303	139,485,993
Net assets released from restrictions	2,496,173	(2,496,173)	-	-
Total revenues and net assets released from restrictions	147,694,340	2,427,963	150,122,303	139,485,993
Expenses:				
Instruction	47,225,601	-	47,225,601	42,271,459
Student services	31,866,115	-	31,866,115	30,097,673
Academic support	13,938,822	-	13,938,822	14,401,288
Institutional support	20,582,341	-	20,582,341	21,319,959
Auxiliary enterprises	24,924,987	-	24,924,987	24,140,717
Total expenses	138,537,866	-	138,537,866	132,231,096
Change in net assets from operations	9,156,474	2,427,963	11,584,437	7,254,897
Nonoperating activities:				
Investment return, net of amounts utilized for operations	(898,046)	(3,021,044)	(3,919,090)	(84,285)
Contributions	52,225	278,377	330,602	2,250,501
Change in value of split interest obligations	(11,769)	(5,853)	(17,622)	(21,879)
Other changes	1,850	-	1,850	-
Change in net assets from nonoperating activities	(855,740)	(2,748,520)	(3,604,260)	2,144,337
Change in net assets	8,300,734	(320,557)	7,980,177	9,399,234
Net assets, beginning of year	78,410,854	51,367,093	129,777,947	120,378,713
Net assets, end of year	\$ 86,711,588	\$ 51,046,536	\$ 137,758,124	\$ 129,777,947

MERRIMACK COLLEGE

Statement of Activities

Year Ended June 30, 2019

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Operating revenue:			
Tuition and fees, net (less scholarship aid to students of \$74,002,739)	\$ 90,548,391	\$ -	\$ 90,548,391
Grant revenues	2,474,296	-	2,474,296
Contributions	287,471	1,679,172	1,966,643
Investment return utilized for operations	820,997	1,891,716	2,712,713
Auxiliary enterprises	37,800,686	-	37,800,686
Other revenue	3,983,264	-	3,983,264
Total revenues	135,915,105	3,570,888	139,485,993
Net assets released from restrictions	3,110,783	(3,110,783)	-
Total revenues and net assets released from restrictions	139,025,888	460,105	139,485,993
Expenses:			
Instruction	42,271,459	-	42,271,459
Student services	30,097,673	-	30,097,673
Academic support	14,401,288	-	14,401,288
Institutional support	21,319,959	-	21,319,959
Auxiliary enterprises	24,140,717	-	24,140,717
Total expenses	132,231,096	-	132,231,096
Change in net assets from operations	6,794,792	460,105	7,254,897
Nonoperating activities:			
Investment return, net of amounts utilized for operations	(19,491)	(64,794)	(84,285)
Contributions	30,367	2,220,134	2,250,501
Funds released from restrictions for buildings	2,412,119	(2,412,119)	-
Change in value of split interest obligations	(13,411)	(8,468)	(21,879)
Change in net assets from nonoperating activities	2,409,584	(265,247)	2,144,337
Change in net assets	9,204,376	194,858	9,399,234
Net assets, beginning of year	69,206,478	51,172,235	120,378,713
Net assets, end of year	\$ 78,410,854	\$ 51,367,093	\$ 129,777,947

MERRIMACK COLLEGE

Statements of Cash Flows

Years Ended June 30,

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 7,980,177	\$ 9,399,234
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,612,707	7,456,225
Provision for doubtful accounts	(939,784)	(842,108)
Realized and unrealized losses (gains) on investments	2,442,445	(1,307,351)
Contributions received for long-term investment	(669,698)	(2,942,211)
Changes in operating assets and liabilities excluding cash:		
Accounts and loans receivable	404,772	71,684
Contributions receivable	666,368	440,971
Other assets	1,467,501	(1,178,273)
Accounts payable and accrued expenses	1,166,433	(528,990)
Student deposits and deferred revenue	4,552,143	(979,663)
	24,683,064	9,589,518
Net cash provided by operating activities	24,683,064	9,589,518
Cash flows from investing activities:		
Deposits with bond trustees	10,775,928	4,903,424
Cash paid for purchase of land, buildings, and equipment	(15,541,370)	(17,433,590)
Purchase of investments	(9,140,976)	(16,972,002)
Proceeds from sale of investments	9,688,888	17,773,189
	(4,217,530)	(11,728,979)
Net cash used in investing activities	(4,217,530)	(11,728,979)
Cash flows from financing activities:		
Repayments of bonds payable	(1,710,000)	(1,650,000)
Contributions received for long-term investment	669,698	2,942,211
Net change in refundable U.S. government grants	(283,321)	32,223
	(1,323,623)	1,324,434
Net cash provided by (used in) financing activities	(1,323,623)	1,324,434
Net change in cash and cash equivalents	19,141,911	(815,027)
Cash and cash equivalents and restricted cash, beginning of year	15,676,099	16,491,126
Cash and cash equivalents and restricted cash, end of year	\$ 34,818,010	\$ 15,676,099
Supplemental data:		
Cash paid during the year for interest	\$ 5,424,207	\$ 5,457,187
Change in construction costs accrued and unpaid	\$ 1,862,166	\$ (109,997)

See accompanying notes to the financial statements.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 1 - Organization

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

The College has enrollment of over 4,500 students predominantly from the Northeast region of the United States along with enrollment of students from most states in the country. The College also enrolls students from over thirty countries. Merrimack is accredited by the New England Commission of Higher Education, Inc., as its primary accreditor, but the College also has other accreditations when it deems it useful or required in terms of providing evidence of further rigor and discipline in certain programs of study. The College participates in student financial aid programs sponsored by the United States Department of Education (“DOE”), and to a much lesser extent individual states, which provides financial support for students. These programs generally facilitate the payment of a significant portion of tuition and other expenses incurred by students when they meet certain eligibility requirements as determined by the College’s financial aid office and are subject to after the fact review by the funders.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America which requires that information regarding its financial position and activities are reported based on the existence of or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. The Board of Trustees has designated from net assets without donor restrictions funds to function as endowment. Net assets without donor restrictions also include investment in plant, net of accumulated depreciation and related bond obligations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include short-term securities with maturities at date of purchase of three months or less and are reported at cost plus accrued interest. Certain accounts exceed insured limits while others do not include deposit insurance. The College has not experienced any losses in such accounts. Cash and cash equivalents held by investment managers are considered part of investments. Cash includes amounts restricted for a student loan program in the amount of \$579,123 and \$671,813 for the years ended June 30, 2020 and 2019, respectively. Cash also includes amounts restricted for The CARES Act Higher Education Emergency Relief Fund-IHE/Student Aid in the amount of \$1,323,423 for the year ended June 30, 2020.

Contributions Receivable

Contributions receivable represent contributions verifiably committed by donors that are scheduled for payment in the future. Such amounts are initially recorded at fair market value using Level 2 inputs as described in the fair value policies later in this section. An allowance is provided for uncollectable amounts based on management's estimates including historical experience, specific review of circumstances and other factors.

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

Accounts and loans receivable are stated net of allowance for doubtful accounts of \$1,562,789 and \$1,011,230 for the years ended June 30, 2020 and 2019, respectively. Loans receivable represent amounts due from students under the Federal Perkins Loan Program ("Perkins Loans").

The College regularly assesses the adequacy of the allowance for doubtful accounts related to accounts and loans receivable by performing ongoing evaluations of the student account and loan portfolio, including such factors as prior collection history, the economic environment and the type of receivable or loan. The level of the allowance is adjusted based on the results of this analysis.

Approximately \$1,057,460 and \$1,061,965 of loans were considered past due as of June 30, 2020 and 2019, respectively, however credit risk with these loans is somewhat limited given the rules associated with Perkins Loans that allow properly administered loans to be conveyed back to the DOE in exchange for a reduction in refundable U.S. government grants for student loans and, accordingly, reserves required for these loans are modest. The College has omitted detailed disclosures given the amounts involved.

Investments

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

Net investment return (loss) is reported in the statements of activities and consists of interest, dividends, realized and unrealized gains and losses net of external direct investment expenses. Returns are allocated to the underlying source of the funds when such funds are received with donor restrictions with other returns being considered without donor restrictions.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The College reports required types of financial instruments in accordance with the fair value standards. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and to minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine recurring reported fair values of certain instruments by classifying such into three categories based on the nature of the inputs used. The fair value standards also require certain items be recorded at fair value when received on a non-recurring basis, such as long-term contributions receivable. In addition, the College reports certain investments using the net asset value (“NAV”) per share as determined by investment managers under the so called “practical expedient” of fair value. The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met with such category being separate and apart from the three basic categories of fair value items. The categories other than the NAV method are as follows:

Level 1 – Quoted prices in active markets for identical instruments as of the reporting date. Instruments within this category generally include listed equity securities, publically traded mutual funds and certain funds that are much the same as public funds traded on stock or other exchanges.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly as of the reporting date. Instruments in this category most often require the use of a model commonly used in valuation, such an interest rate of like duration and risk that would assist in determining pricing of the instrument.

Level 3 – Pricing inputs are unobservable given little, if any, market activity for the instrument. The inputs for such require significant judgment such as an appraisal or other method. Instruments in this category include certain types of private equity that are not eligible for NAV valuation and beneficial interests in perpetual trusts.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

It is possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observable inputs and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the College’s financial instruments, see Note 5 - Investments and Fair Value Measurements.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Deposits with Bond Trustees

Deposits with bond trustees are reported at fair value as per the fair value policies described elsewhere in this section. These amounts relate to funds held under bond indentures for debt service and project funds. Project funds are made available from the trustees as qualifying project costs are incurred while debt service funds must be maintained per the indentures at specified levels over the term of the agreement.

Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost when the useful life is over one year and when such amounts exceed a management established threshold, less accumulated depreciation. Depreciation is provided for on the straight-line basis over the estimated useful lives of the respective assets. If an asset is donated to the College, such amounts are recorded at fair value using Level 3 fair value methods as described elsewhere in this section at the date of the gift. Major betterments are capitalized while maintenance and repairs are expensed when incurred.

Student Deposits and Deferred Revenue

Student deposits represent reservation deposits and other advance payments by students on account. Deferred revenue represents the amount of unearned related services that are in progress as of year-end related to net tuition, fees and auxiliary enterprises such as room and board. Such amounts are reflected as revenue ratably over time with such amounts generally being recognized on a current basis given the nature and duration of the underlying services being provided.

Substantially all amounts included in deferred revenue at the opening of each period were recognized as revenues during the following fiscal period with very limited amounts not being earned associated with student withdrawal rights that management did not consider material. The remaining performance obligation is time driven given the academic calendar that underlies the earnings process for tuition, fees and auxiliary revenue. There were no significant changes to deferred revenue amounts on a quantitative or qualitative basis.

Bond Issuance Costs and Bond Premiums and Discounts

Costs incurred and underwriting discounts or premiums of bonds are capitalized and are included as part of bonds payable. Such amounts are amortized over the lives of the respective debt issues.

Income Taxes

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), and is generally exempt from federal income taxes pursuant to Section 501(a) of the Code. The College is also generally exempt from state income taxes. Given the limited taxable activities of the College, management concluded that such disclosures related to tax provisions are not necessary.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Uncertain Tax Positions

The College is required to assess uncertain tax positions. The College has determined that its tax status and decisions over which activities are related and unrelated are its only tax positions and that such positions do not result in an uncertainty requiring recognition. The College's federal and state tax returns are generally open for examination for three years following the date filed. No examinations are currently in process.

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions as follows:

The College derives revenues primarily through tuition, fees and auxiliary services all of which are under arrangements that are aligned to an academic semester which is less than one year in length.

Tuition, fees and auxiliary enterprises revenue are recorded at established rates, net of institutional financial aid and scholarships provided directly to students and therefore amounts are deemed to be fixed and determinable. Such net amounts are recorded as revenue when performance obligations are satisfied which is generally over time as services are rendered whether relating to educational services or auxiliary services such as room and board. Management believes that recognizing revenue over time is the best measure of services rendered based on its academic calendar and has not made any changes in the timing of satisfaction of its performance obligations or amounts allocated to those obligations. Discounts provided to employees are considered part of fringe benefits within operating expenses and likewise are recorded over time. Management does not consider there to be significant judgment involved in the timing of satisfaction of performance obligations as those are directly linked to the academic calendar of the related academic activity.

Students may withdraw from programs of study within certain time limits as under the College's withdrawal policies by semester. These policies vary by program but allow for up to a 100% refund within seven days of the start of classes declining to no refund at twenty-one days after the start of classes. Given the normal timing of the College's programs, the exposure to such is limited at year end.

Payments made by third parties such as DOE relative to loans and grants to students are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the College.

Revenue earned on grants for research is recognized as related costs are incurred. Revenue on contracts is recognized as value is transferred to customers which generally is indicated via the incurring of allowable costs under the contract.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Contributions, including unconditional promises to give, are recognized as revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions of assets other than cash are recorded at their estimated fair value and per the fair value policies described elsewhere in this section. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved. Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Contributions with donor-imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions when such time or purposes restriction has been satisfied. Gifts of property, plant and equipment are recorded as without donor restrictions unless the donor explicitly states how such assets should be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. The College reports expirations of donor restrictions when the donated or acquired long-lived asset is placed into service.

Building rental income and grant and contract income is recorded as revenue over time as earned.

Investment returns are reported as revenue based on the fair value of such investments at year end. Such returns are allocated ratably based on the relative proportion of funds invested with donor restrictions and those without donor restrictions. Investment returns allocated to net assets with donor restrictions remain in such category until appropriated by the board under the board approved spending policy unless otherwise required by the terms of the gift that they be added to the principal of the endowment.

Operating and Nonoperating Activity

The accompanying statements of activities present the change in net assets distinguishing between operating and nonoperating activities. Operating activities principally include all revenues and expenses that relate to the College's educational programs, research, training and supporting activities. Operating revenues also include investment return pursuant to the College's spending rate policy earned on investments held for endowment and similar purposes. Investment returns in excess of or less than the spending rate are considered nonoperating. In addition, contributions raised for capital expenditures and endowment are also considered nonoperating along with other smaller items.

Functional Allocation of Expenses

Expenses are reported as decreases in net assets without donor restrictions. The statements of activities present expenses by functional classification. Building operations and maintenance costs, including depreciation, are allocated based on square footage. Interest expense is allocated based on square footage applied to the functional purpose for which debt proceeds were used.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses (Continued)

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the statements of activities. Expenses are also presented later within these footnotes by natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of plant assets and operation and maintenance of plant expenses have been allocated to functional classifications based on square footage of facilities. Interest expense is allocated to functional classifications that benefited from the use of the proceeds of the debt.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adopted Accounting Pronouncements

Effective July 1, 2019, the College adopted ASU 2016-18, Statement of Cash Flows: Restricted Cash. The amendment in this ASU requires that 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.

Certain changes from adopting these new standards resulted in changes to terminology which impacted certain disclosures and presentation of amounts.

Reclassifications

Certain amounts from the prior year's financial statements were reclassified in order to conform to the current year's financial statements.

Subsequent Events

The College has evaluated all events or transactions that occurred after June 30, 2020 up through September 10, 2020, the date these financial statements were issued. No such items were noted that merited recognition through this date.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 3 - Liquidity and Availability

The College regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The College has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities and its line of credit. The College has a liquidity and operating reserve policy which is written and monitored by its Investment, Finance, Audit & Risk Management Committee of the Board of Trustees. The liquidity and operating reserve policy establishes certain minimum thresholds for cash balances and provides guidance to remedy any situation should cash balances be less than the established threshold.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenditures related to its ongoing activities of teaching, research and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to the financial assets available to meet general expenditures over the next 12 months, the College operates with a budget surplus and anticipates collecting revenue in excess of its general expenditures. Refer to the statement of cash flows which identifies the sources and uses of the College's cash and shows positive cash generated by operations for the years ended June 30, 2020 and 2019.

Although not expected to be needed, the spendable yet restricted portion of the College's net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use.

As of June 30, 2020 and 2019, the following tables show the total financial assets held by the College and the amounts of those financial assets available within one year of the balance sheet date to meet general expenditures:

	2020	2019
Financial assets at year end:		
Cash and cash equivalents	\$ 34,818,010	\$ 15,676,099
Contributions receivable, net	3,171,057	3,837,425
Accounts and loans receivable, net	6,289,840	5,754,828
Investments convertible to cash in the next 12 months	54,481,624	57,571,625
Total financial assets at year end	\$ 98,760,531	\$ 82,839,977
Financial assets available to meet general expenditures over the next 12 months:		
Cash and cash equivalents	\$ 32,915,464	\$ 15,004,287
Contributions for general expenditures due in one year or less	336,977	413,977
Accounts receivable due in one year or less	5,042,353	4,343,542
Investment return and appropriation	2,884,908	2,712,689
Investments not encumbered by donor or board restrictions	885,933	595,848
Total financial assets available to meet general expenditures over the next 12 months	\$ 42,065,635	\$ 23,070,343

MERRIMACK COLLEGE

Notes to Financial Statements

Note 4 - Contributions Receivable, Net

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

	2020	2019
Unconditional promises expected to be collected in:		
Less than one year	\$ 981,718	\$ 983,320
One year to five years	2,388,341	2,763,610
Five years and thereafter	<u>180,000</u>	<u>575,000</u>
	3,550,059	4,321,930
Allowance for discount and doubtful pledges	<u>(379,002)</u>	<u>(484,505)</u>
Contributions receivable, net	<u>\$ 3,171,057</u>	<u>\$ 3,837,425</u>

MERRIMACK COLLEGE

Notes to Financial Statements

Note 5 - Investments and Fair Value Measurements

The valuation of the College's financial instruments by fair value hierarchy consisted of the following at June 30:

	<u>Level 1</u>	<u>2020 NAV</u>	<u>Total</u>
Assets			
Deposits with bond trustees:			
Debt service reserve with trustee:			
Cash and cash equivalents	\$ 9,518,131	\$ -	\$ 9,518,131
Total deposits with bond trustees	9,518,131	-	9,518,131
Investments			
Working capital investments:			
Cash and cash equivalents	269,495	-	269,495
U.S. and international bond funds	154,406	-	154,406
U.S. and international equity funds	455,907	-	455,907
Total working capital investments	879,808	-	879,808
Long-term investments (endowment):			
Cash and cash equivalents	762,348	-	762,348
U.S. and international bond funds	11,273,784	-	11,273,784
U.S. and international equity funds	29,538,578	-	29,538,578
Private equity and venture capital funds	12,027,106	2,064,276	14,091,382
Total long-term investments (endowment)	53,601,816	2,064,276	55,666,092
Total investments	54,481,624	2,064,276	56,545,900
Total assets at fair value	\$ 63,999,755	\$ 2,064,276	\$ 66,064,031

MERRIMACK COLLEGE

Notes to Financial Statements

Note 5 - Investments and Fair Value Measurements (Continued)

The valuation of the College's financial instruments by fair value hierarchy consisted of the following at June 30:

	2019		
	Level 1	NAV	Total
Assets			
Deposits with bond trustees:			
Debt service reserve with trustee:			
Cash and cash equivalents	\$ 6,618,599	\$ -	\$ 6,618,599
U.S. and international bond funds	2,114,000	-	2,114,000
	8,732,599	-	8,732,599
Total debt service reserve with trustee			
Unexpended bond proceeds:			
Cash and cash equivalents	11,561,460	-	11,561,460
	11,561,460	-	11,561,460
Total unexpended bond proceeds			
	20,294,059	-	20,294,059
Total deposits with bond trustees			
Investments			
Working capital investments:			
Cash and cash equivalents	64,608	-	64,608
U.S. and international bond funds	264,542	-	264,542
U.S. and international equity funds	266,698	-	266,698
	595,848	-	595,848
Total working capital investments			
Long-term investments (endowment):			
Cash and cash equivalents	723,336	-	723,336
U.S. and international bond funds	9,418,357	-	9,418,357
U.S. and international equity funds	32,442,241	-	32,442,241
Private equity and venture capital funds	14,391,845	1,964,630	16,356,475
	56,975,779	1,964,630	58,940,409
Total long-term investments (endowment)			
	57,571,627	1,964,630	59,536,257
Total investments			
	\$ 77,865,686	\$ 1,964,630	\$ 79,830,316
Total assets at fair value			

Unfunded capital commitments amounted to \$2,121,750 and \$2,650,250 at June 30, 2020 and 2019, respectively. The College has no plans or intentions to liquidate any of its investments using NAV methods at other than the ordinary course as allowed under such instruments.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 5 - Investments and Fair Value Measurements (Continued)

Redemption/liquidity of investments were as follows at June 30, 2020:

<u>Permissible Investment Redemption Frequency</u>	<u>Fair Value Redeemable</u>
Daily	\$ 54,481,624
Illiquid (>365 Days)	<u>2,064,276</u>
Total	<u>\$ 56,545,900</u>

Following is a reconciliation of total investment return to amounts reported in the statements of activities for the years ended June 30:

	2020	2019
Long-term investment return utilized - operating activities	\$ 2,863,135	\$ 2,712,713
Long-term investment return - nonoperating activities	<u>(3,919,090)</u>	<u>(84,285)</u>
Total return	<u>\$ (1,055,955)</u>	<u>\$ 2,628,428</u>

Note 6 - Land, Buildings, and Equipment, Net

The College's investment in land, buildings, and equipment is as follows at June 30:

	Estimated Lives	2020	2019
Land		\$ 3,678,263	\$ 3,678,263
Land improvements	10 - 30 years	23,560,543	23,019,654
Buildings and components	50 years	203,719,296	192,196,318
Furniture and equipment	5 years	48,915,643	46,416,533
Automobiles and trucks	5 - 7 years	1,190,385	1,295,353
Capital leases	3 - 4 years	840,874	595,686
Construction in progress		<u>2,076,634</u>	<u>3,205,595</u>
		283,981,638	270,407,402
Accumulated depreciation and amortization		<u>(118,470,941)</u>	<u>(110,830,294)</u>
		<u>\$ 165,510,697</u>	<u>\$ 159,577,108</u>

MERRIMACK COLLEGE

Notes to Financial Statements

Note 6 - Land, Buildings, and Equipment, Net (Continued)

Depreciation and amortization expense was \$7,745,615 and \$7,589,129 for the years ended June 30, 2020 and 2019, respectively. During construction, the College capitalizes interest cost incurred on long-lived projects which generally represent buildings and components. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$182,745 and \$465,089 during the years ended June 30, 2020 and 2019, respectively. The College considers assets under capital leases as modest in amount and thus has omitted detailed disclosures.

Note 7 - Bonds Payable and Line of Credit

Bonds Payable

Bonds payable is as follows at June 30:

	Payments Through	2020	2019
Bonds payable:			
Massachusetts Development Finance Agency Bonds - Series 2012A	2042	\$ 56,110,000	\$ 57,395,000
Massachusetts Development Finance Agency Bonds - Series 2014	2044	20,745,000	21,015,000
Massachusetts Development Finance Agency Bonds - Series 2017	2047	28,975,000	29,130,000
Total bonds payable		105,830,000	107,540,000
Plus unamortized bond premium		4,676,501	4,877,350
Less deferred bond issuance costs		(889,559)	(758,516)
Less unamortized bond discount		(728,054)	(927,038)
Total bonds payable		\$ 108,888,888	\$ 110,731,796

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

The College is required to maintain escrow accounts sufficient to pay one year's principal and interest on the Series 2012A, Series 2014 and Series 2017 Bonds. Additionally, the Series 2012A requires a debt service fund to be held. Such amount is included in deposits with bond trustees.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 7 - Bonds Payable and Line of Credit (Continued)

Bonds Payable (Continued)

Bonds payable are due as follows at June 30, 2020:

2021	\$ 1,765,000
2022	1,860,000
2023	1,960,000
2024	2,065,000
2025	2,175,000
Thereafter	<u>96,005,000</u>
	<u>\$ 105,830,000</u>

Interest expense net of amounts capitalized was \$5.0 million and \$4.6 million for the years ended June 30, 2020 and 2019, respectively.

Line of Credit

The College has an unsecured line of credit agreement with a bank that extends through February 28, 2022 in the amount of \$7,500,000. The line of credit bears interest at 30-day LIBOR plus 1.25%, with a 0.10% unused fee for an actual rate of 1.42% and 3.65% at June 30, 2020 and 2019, respectively. The line of credit includes a consecutive 15-day non-use provision, which must be met annually. The line of credit is subject to annual extensions upon mutual agreement. There was no amount outstanding as of June 30, 2020 and 2019.

Note 8 - Endowment

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

Interpretation of Relevant Law

The Board of the College has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 as enacted in Massachusetts ("UPMIFA") 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 tracks the corpus of endowment type gifts.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 8 - Endowment (Continued)

Interpretation of Relevant Law (Continued)

The remaining portion of the donor-restricted endowment fund that is not corpus is classified as unappropriated gains until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate from endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

Return Objectives and Risk Parameters

The overall investment objective of the College is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The College diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Investment, Finance, Audit & Risk Management Committee, which oversees the College's investment program in accordance with established guidelines in consultation and collaboration with the College's investment advisors. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board-designated funds.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on investments in equities, fixed income, and alternative investments to achieve its long-term return objectives within prudent risk constraints.

Strategies Employed for Achieving Investment Objectives

The funds have a long-term investment horizon with relatively low liquidity needs. For this reason, the funds can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective. Consequently, the funds can take advantage of less liquid investments, such as private equity, hedge funds, and other partnership vehicles, which typically offer higher risk-adjusted return potential as compensation for forfeiture of liquidity. Nonetheless, to ensure liquidity for distributions and to facilitate rebalancing, the maximum allocation to illiquid assets, defined as funds locked-up for greater than one year, shall be limited to 30% of the funds' market value.

MERRIMACK COLLEGE

Notes to Financial Statements

Note 8 - Endowment (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College's current endowment spending policy allows for spending of 0% to 5% of the average of the fair value of qualifying endowment investments over the previous three years. The actual appropriation was \$2,863,135 and \$2,712,713 for an effective rate of 5% and 5% for the years ended June 30, 2020 and 2019, respectively. The appropriation for the year ended June 30, 2021 is budgeted for \$2,884,908. Accordingly, over the long term, the College expects the current spending policy will allow its endowment to maintain its purchasing power. Additional real growth will be provided through new gifts and any excess investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported as reductions in unrestricted net assets. There were no deficiencies reported as of June 30, 2020 and 2019.

Endowment net assets consist of the following at June 30:

	2020		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 41,856,024	\$ 41,856,024
Board-designated endowment funds	13,810,068	-	13,810,068
Total endowed net assets	<u>\$ 13,810,068</u>	<u>\$ 41,856,024</u>	<u>\$ 55,666,092</u>
	2019		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 44,209,056	\$ 44,209,056
Board-designated endowment funds	14,731,353	-	14,731,353
Total endowed net assets	<u>\$ 14,731,353</u>	<u>\$ 44,209,056</u>	<u>\$ 58,940,409</u>

MERRIMACK COLLEGE

Notes to Financial Statements

Note 8 - Endowment (Continued)

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment net assets, July 1, 2018	<u>\$ 14,754,605</u>	<u>\$ 43,733,382</u>	<u>\$ 58,487,987</u>
Total investment return	608,032	2,020,396	2,628,428
Contributions/additions	-	540,468	540,468
Appropriation of endowment assets for expenditure	(627,523)	(2,085,190)	(2,712,713)
Timing of prior year appropriations	<u>(3,761)</u>	<u>-</u>	<u>(3,761)</u>
Endowment net assets, June 30, 2019	<u>14,731,353</u>	<u>44,209,056</u>	<u>58,940,409</u>
Total investment return	(241,515)	(814,440)	(1,055,955)
Contributions/additions	-	669,698	669,698
Appropriation of endowment assets for expenditure	(654,845)	(2,208,290)	(2,863,135)
Timing of prior year appropriations	<u>(24,925)</u>	<u>-</u>	<u>(24,925)</u>
Endowment net assets, June 30, 2020	<u>\$ 13,810,068</u>	<u>\$ 41,856,024</u>	<u>\$ 55,666,092</u>

Note 9 - Net Assets

Net assets without donor restrictions consist of the following at June 30:

	2020	2019
Net investment in land, buildings, and equipment	\$ 56,621,809	\$ 48,845,312
Board-designated endowment funds	13,801,068	14,731,326
Other funds	<u>16,288,711</u>	<u>14,834,216</u>
	<u>\$ 86,711,588</u>	<u>\$ 78,410,854</u>

MERRIMACK COLLEGE

Notes to Financial Statements

Note 9 - Net Assets (Continued)

Net assets with donor restrictions consist of the following at June 30:

	2020	2019
Accumulated unspent gains on endowment funds	<u>\$ 15,159,670</u>	<u>\$ 18,182,374</u>
Endowment corpus:		
Instruction	8,152,824	7,947,824
General endowment	1,631,954	1,631,954
Student aid	16,189,446	15,783,200
Other	<u>722,130</u>	<u>663,703</u>
	<u>26,696,354</u>	<u>26,026,681</u>
 Total invested endowment	 <u>41,856,024</u>	 <u>44,209,055</u>
 Pledges receivable for endowment	 <u>1,289,932</u>	 <u>1,629,004</u>
 Total endowment	 <u>43,145,956</u>	 <u>45,838,059</u>
Unspent purpose restricted gifts:		
Instruction	947,105	966,771
Student services	471,633	410,687
Academic support	1,201,671	919,659
Student aid	989,779	699,702
Building projects	3,520,820	1,841,587
Other	<u>769,572</u>	<u>690,628</u>
	<u>7,900,580</u>	<u>5,529,034</u>
	 <u>\$ 51,046,536</u>	 <u>\$ 51,367,093</u>

MERRIMACK COLLEGE

Notes to Financial Statements

Note 9 - Net Assets (Continued)

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

	2020	2019
Operating purpose and/or time restriction:		
Instruction	\$ 211,018	\$ 386,955
Student services	23,497	189,260
Academic support	244,891	309,347
Student aid	1,736,052	1,724,559
Other	280,715	500,662
Total operating purpose and/or time restriction	2,496,173	3,110,783
Building projects (nonoperating)	-	2,412,119
	\$ 2,496,173	\$ 5,522,902

Note 10 - Natural Classification of Expenses

The College's primary program service is academic instruction. Expenses reported as student services, academic support, institutional support and auxiliaries are incurred in support of this primary program activity. Expenses presented by natural classification and function are as follows for the fiscal years ended June 30:

	2020					
	<i>Salaries and Benefits</i>	<i>Supplies and Services</i>	<i>Occupancy and Related Expenses</i>	<i>Depreciation, Amortization and Interest</i>	<i>Other Operating Expenses</i>	<i>Total</i>
Instruction	\$ 37,163,984	\$ 4,311,131	\$ 2,101,534	\$ 2,974,063	\$ 674,889	\$ 47,225,601
Student services	15,963,006	4,203,811	3,034,829	2,101,894	6,562,575	31,866,115
Academic support	6,610,760	3,236,294	1,087,083	905,301	2,099,384	13,938,822
Institutional support	11,218,595	3,983,234	1,072,578	514,207	3,793,727	20,582,341
Auxiliaries	117,203	8,575,787	9,906,299	6,267,910	57,788	24,924,987
Total expenses	\$ 71,073,548	\$ 24,310,257	\$ 17,202,323	\$ 12,763,375	\$ 13,188,363	\$ 138,537,866

	2019					
	<i>Salaries and Benefits</i>	<i>Supplies and Services</i>	<i>Occupancy and Related Expenses</i>	<i>Depreciation, Amortization and Interest</i>	<i>Other Operating Expenses</i>	<i>Total</i>
Instruction	\$ 32,890,571	\$ 4,046,214	\$ 2,059,556	\$ 2,440,123	\$ 834,995	\$ 42,271,459
Student services	14,896,540	4,649,964	2,806,186	2,103,668	5,641,315	30,097,673
Academic support	7,479,011	3,041,942	1,015,434	817,630	2,047,271	14,401,288
Institutional support	11,647,886	4,354,631	1,073,222	522,514	3,721,706	21,319,959
Auxiliaries	196,194	9,209,481	8,282,061	6,364,708	88,273	24,140,717
Total expenses	\$ 67,110,202	\$ 25,302,232	\$ 15,236,459	\$ 12,248,643	\$ 12,333,560	\$ 132,231,096

MERRIMACK COLLEGE

Notes to Financial Statements

Note 10 - Natural Classification of Expenses (Continued)

Expenses associated with fundraising activities of the College were approximately \$3.6 million and \$2.6 million in 2020 and 2019, respectively, and are included in institutional support in the statements of activities.

Note 11 - Benefit Plan

The College provides a qualified defined contribution retirement annuity plan under Internal Revenue Service Code Section 403 for all eligible employees. Under this plan, the College and plan participants make contributions. The College's share of these contributions amounted to \$3,425,949 and \$3,193,017 for the years ended June 30, 2020 and 2019, respectively.

Note 12 - Revenue Matters

The College's revenues from tuition, fees and auxiliary enterprises are all recognized over time. Factors that can impact the amount and timing of cash flows include policies that allow for withdrawal by students after the start of the program subject to certain limits which differ by nature of program. Cash flows are also impacted by DOE rules which differ for newly enrolled versus continuing students with respect to financial aid. Generally, funds made available by the DOE for new students are available later than for continuing students. Management does not view there to be other qualitative factors that have a significant impact on the nature and amount of revenue and cash flow.

The College has a number of lines of business which include traditional undergraduate education, and graduate programs. The following table summarizes the percentages of revenue from each of these programs with auxiliary enterprises being ascribed to the program from which such revenues are derived.

	2020	2019
Revenue		
Undergraduate	90%	92%
Graduate	10%	8%

Note 13 - Commitments and Contingencies

Employment Agreements

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

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

MERRIMACK COLLEGE

Notes to Financial Statements

Note 13 - Commitments and Contingencies (Continued)

Commitments

The College has multiple agreements with a company to provide student housing for students based on demand and the agreements expire at various times through August 24, 2020, and, subsequent to that date, has a month-to-month rental agreement with the same party.

The College has an agreement with a company to operate the College's food services on campus, including the dining hall, providing the exclusive right to provide meals related to the meal plan, flex dollars, and the operation of all retail operations. The contract is up for renewal in 2027.

Contingencies

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

As of the date of this report, Management has noted no impact on the College's enrollment trends and minimal impact on utilization of residence halls due to the Coronavirus (COVID-19) pandemic. Management is currently unable to estimate the future impact of COVID-19 on enrollment, mode of delivery, price level trends, and utilization of residence halls, which could potentially impact future results of operations.

Note 14 - Related-Party Transactions

The College remits to the Order lay-equivalent salaries for those services provided by Order members. Remittances amounted to \$436,988 and \$444,749 for the years ended June 30, 2020 and 2019, respectively.