

Hampshire College

Financial Report | 2016-2017



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Report of the Independent Auditors

The Board of Trustees
Hampshire College
Amherst, Massachusetts



CliftonLarsonAllen LLP
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We have audited the accompanying financial statements of Hampshire College (a nonprofit organization) (the College), which comprise the statements of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 Hampshire College as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The 2016 summarized comparative information was derived from the June 30, 2016 financial statements which were audited by other auditors, and is consistent, in all material respects, with the audited financial statements from which it was derived. Those financial statements were audited by other auditors whose report dated February 17, 2017 expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads 'CliftonLarsonAllen LLP'.

CliftonLarsonAllen LLP

Boston, Massachusetts
December 15, 2017

Statements of Financial Position

JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
Cash and cash equivalents	\$ 6,512,160	\$ 6,834,217
Accounts and loans receivable, net (Note 2)	684,841	665,428
Contributions receivable, net (Note 3)	8,450,427	11,785,228
Prepaid expenses, inventories and other assets	172,734	171,212
Deposits with bond trustee (Note 4)	378,273	341,001
Investments - at fair value (Note 4)	48,678,948	38,238,751
Funds held in trust by others (Notes 4 and 6)	2,490,614	2,467,276
Property, plant and equipment, net (Note 7)	55,477,831	55,552,125
TOTAL ASSETS	\$ <u>122,845,828</u>	\$ <u>116,055,238</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 1,970,933	\$ 1,698,217
Deposits and deferred income	1,646,854	1,770,692
Contingent asset retirement obligation	3,160,939	3,173,270
Long term debt, net (Note 8)	27,513,193	28,028,922
TOTAL LIABILITIES	<u>34,291,919</u>	<u>34,671,101</u>

NET ASSETS

Unrestricted	32,450,476	30,561,118
Temporarily restricted (Note 9)	21,841,049	19,256,006
Permanently restricted (Note 9)	34,262,384	31,567,013
TOTAL NET ASSETS	<u>88,553,909</u>	<u>81,384,137</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>122,845,828</u>	\$ <u>116,055,238</u>

See accompanying notes to financial statements.

Statement of Activities

YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2017	2016
OPERATING ACTIVITIES					
Revenues and other additions					
Tuition, room, board and other fees	\$ 74,033,992	\$ –	\$ –	\$ 74,033,992	\$ 77,187,254
Less: student aid awarded	(31,594,917)			(31,594,917)	(31,836,559)
Net tuition and fees	42,439,075	–	–	42,439,075	45,350,695
Contributions, gifts and grants	2,656,254	4,570,195	–	7,226,449	7,018,449
Other income	430,892	3,571	–	434,463	791,841
Investment income for operations (Note 4)	703,780	1,213,467	–	1,917,247	1,915,265
Other auxiliary enterprises	2,281,509		–	2,281,509	1,680,260
Net assets released from restrictions for operating purposes	6,323,810	(6,323,810)	–	–	–
Total operating revenues and other support	54,835,320	(536,577)	–	54,298,743	56,756,510
Expenses and other deductions					
Instruction and related activities	20,169,891	–	–	20,169,891	20,811,521
Research and sponsored programs	4,691,191	–	–	4,691,191	4,453,081
Student services	8,489,869	–	–	8,489,869	8,395,813
Administration and general	12,470,454	–	–	12,470,454	12,522,473
Academic support	3,066,647	–	–	3,066,647	3,316,696
Auxiliary enterprises	7,378,634	–	–	7,378,634	7,547,670
Total operating expenses and other deductions	56,266,686	–	–	56,266,686	57,047,254
Change in net assets from operating activities	(1,431,366)	(536,577)	–	(1,967,943)	(290,744)
NONOPERATING ACTIVITIES					
Contributions for long-term investment	–	1,576,709	730,584	2,307,293	6,201,683
Net return on long-term investments (Note 4)	2,914,297	6,755,245	3,574	9,673,116	(572,861)
Investment income for operations (Note 4)	(703,780)	(1,213,467)	–	(1,917,247)	(1,895,069)
Other deductions and additions	(640,243)	(2,246,417)	1,961,213	(925,447)	(192,928)
Net assets released from restrictions for nonoperating purposes	1,750,450	(1,750,450)	–	–	–
Change in net assets from nonoperating activities	3,320,724	3,121,620	2,695,371	9,137,715	3,540,825
Total change in net assets	1,889,358	2,585,043	2,695,371	7,169,772	3,250,081
Net assets, beginning of year	30,561,118	19,256,006	31,567,013	81,384,137	78,134,056
Net assets, end of year	\$ 32,450,476	\$ 21,841,049	\$ 34,262,384	\$ 88,553,909	\$ 81,384,137

See accompanying notes to financial statements.

Statement of Cash Flows

YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
Cash provided by operating activities		
Change in net assets	\$ 7,169,772	\$ 3,250,081
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,933,895	2,602,741
Net realized and unrealized losses/(gains)	(9,347,039)	924,234
Contributions for permanently restricted endowment	(1,403,105)	(3,849,266)
Contributions for long-term capital	(3,000)	(369,186)
Change in accounts and loans receivable	(89,151)	67,036
Change in funds held in trust by others	(23,337)	(175,342)
Change in contributions receivable	3,334,801	68,816
Change in prepaid expenses, inventories, and other assets	(1,522)	(270,628)
Change in accounts payable and accrued expenses	699,473	338,018
Change in deposits payable and deferred revenues	(123,839)	259,639
Change in conditional asset retirement obligation	(12,331)	(2,193)
Net cash provided by operating activities	<u>3,134,617</u>	<u>2,843,950</u>
Cash used by investing activities		
Purchase of property, plant and equipment	(3,274,781)	(12,199,366)
Change in employee mortgages and notes receivable	69,738	66,434
Purchase of investments	(3,797,996)	(5,231,819)
Sale and maturities of investments	2,704,837	7,172,473
Change in actuarial liability for life income obligation	(11,576)	(5,960)
Net cash used by investing activities	<u>(4,309,778)</u>	<u>(10,198,238)</u>
Cash provided by financing activities		
Repayment of long term debt	(515,729)	(8,653,049)
Issuance of new bonds	—	15,000,000
Change in deposits with bond trustee	(37,272)	(37,001)
Contributions for permanently restricted endowment	1,403,105	3,849,266
Contributions for long term capital	3,000	369,187
Net cash provided by financing activities	<u>853,104</u>	<u>10,528,403</u>
Net change in cash and cash equivalents	(322,057)	3,174,115
Cash and cash equivalents, beginning of year	6,834,217	3,660,102
Cash and cash equivalents, end of year	<u>\$ 6,512,160</u>	<u>\$ 6,834,217</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 801,175</u>	<u>\$ 565,070</u>
Supplemental disclosures for noncash investing and financing activities		
Change in purchases of plant and equipment included in accounts payable	<u>\$ (415,181)</u>	<u>\$ (149,064)</u>

See accompanying notes to financial statements.

Notes to Financial Statements

JUNE 30, 2017 AND 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization

Hampshire College (the College) is a residential, coeducational, liberal arts college, which offers an academic program leading to the Bachelor of Arts degree. The College was founded in 1965 and commenced academic classes in September 1970. The average student enrollment was 1,241 and 1,328 during fiscal years 2017 and 2016, respectively.

(b) Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

The classification of net assets and revenues, expenses, gains, and losses are determined by the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined as follows:

Unrestricted: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted: Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College or that expire by 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 these assets. Such assets primarily include the College's permanent endowment funds.

Contributions are reported as increases in the appropriate category of net assets, based on the existence or absence of donor restriction or inherent time restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments based on the existence or absence of donor-imposed restrictions, are reported as increases or decreases in temporarily restricted or unrestricted net assets generally based on the donor imposed restriction or the use of gains or losses as well as by

the College's interpretation of relevant state law. Expirations of temporary restrictions recognized on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Exchange transactions are recorded as unrestricted revenues when they are earned.

(c) Operating Activities

The statement of activities includes all of the College's revenues and expenses as part of operating activities except for realized and unrealized gains (losses) on investments, net of amount appropriated for operations, changes in value of split interest agreements, and gifts for long-term investment.

(d) Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase.

(e) Prepaid Expenses, Inventories, and Other Assets

Prepaid expenses, inventories, and other assets include supplies and inventory for sale, and amounts paid in advance for future services.

(f) Investments

Investments are reported at fair value. If an investment is held directly by the College and an active market with quoted prices exists, the College reports the fair value as the market price of an identical security. The College also holds shares or units in alternative investments such as private equity, and real asset strategies. Such funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, those investments may hold assets, which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The College has utilized the net asset value (NAV) reported by each of the underlying funds as a practical expedient to estimating the fair value of the investments. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the College's interest in the funds. Furthermore, changes in the liquidity provisions of the funds may significantly impact the fair value of the College's interests in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the College were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different from the reported value.

(g) Fair Value of Financial Instruments

The fair value of investments is disclosed in note 4. Fair value for marketable securities is based upon quoted market prices. Fair values for trusts held by others, and other alternative investments are valued based upon net asset values as reported by third parties responsible for administering and/or managing such investments. Fair value represents the price that would be received upon sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date.

Except for investments reported at net asset value or its equivalent (NAV) as a practical expedient to estimate fair value, the College uses a three-tiered hierarchy to categorize those assets carried at fair value based on the valuation methodologies employed. The hierarchy is defined as follows:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the College has the ability to access at measurement date.

- **Level 2:** Quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities.
- **Level 3:** No observable quoted prices, reliance on assumptions market participants would use if a market existed for the assets or liabilities.

The level in the fair value hierarchy used to classify an item is based on the lowest level that is significant to the fair value being established.

The College utilizes the NAV as its estimate of fair value for those funds whose value is determined by the appropriate fund manager. The majority of investments report at NAV consisting of shares or units in funds as opposed to direct interest in the funds' underlying securities, which may be readily marketable and not difficult to value.

The private equity amount included in level three is stock for a privately held company. Annually the private Company is valued by a third party and the valuation is provided to all shareholders. The College uses the valuation provided to determine the value of its investment as of June 30.

h) Investment in Plant

Constructed and purchased property, equipment and library collections are carried at cost. The College capitalizes purchases that have a value of at least \$5,000 and a useful life exceeding 1 year. Land, buildings, or equipment donated to the College are generally carried in the accounts at appraised value at the date of the gift. Long-lived fixed assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives.

The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the College capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, the difference between the cost to settle the asset retirement obligation and the liability

recorded is recognized as a gain or loss in the statement of activities.

(i) Deposits and Deferred Revenues

Deposits and deferred revenues represent amounts collected through June 30, from outside groups for summer conferences and from students relating to student registration for the upcoming fall semester. Such amounts are reported as revenue during the subsequent fiscal year.

(j) Tax Status

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal taxes pursuant to Section 501(a) of the Code. The College has assessed uncertain tax positions and determined that there were no such positions that have a material effect on the financial statements.

(k) Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

(l) Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses. These estimates include the allowance for uncollectible accounts, pledges and loans receivable, and the fair value of certain investments. Actual results could differ from these estimates.

(m) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. These costs include direct and

indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited. All functional expense categories, with exception of administrative and general, can be classified as expenses supporting the College's main program. Administrative and general support expenses are considered administrative expenses and include fundraising expenses.

(n) Change in Accounting Principles

The College has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No.2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs to zero and decreased the debt liability by \$481,375 as of June 30, 2016. The adoption of the standard had no effect on previously reported net assets. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The ASU is retrospectively applied. The College has adopted this change in accounting principle as of June 30, 2016.

(2) ACCOUNTS AND LOANS RECEIVABLE

The following summarizes the aging of student accounts receivable for the years ended June 30:

	2017	2016
0-90 Days	\$ 47,200	\$ 19,690
91-180 Days	66,957	20,899
181-360 Days	234,231	28,247
Over 360 Days	306,967	294,843
	<u>\$ 655,355</u>	<u>\$ 363,679</u>

Accounts and loans receivable are summarized as follows at June 30:

	2017	2016
Student accounts	\$ 655,355	\$ 363,679
Other	422,651	492,389
Student loans	49,049	53,793
	<u>1,127,055</u>	<u>909,861</u>
Less allowance for uncollectible accounts	(442,214)	(244,433)
	<u>\$ 684,841</u>	<u>\$ 665,428</u>

(3) CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:

Unconditional promises expected to be collected:

	2017	2016
In one year or less	\$ 2,729,373	\$ 5,606,257
Between one and five years	5,982,033	6,418,890
In more than five years	-	10,000
	<u>8,711,406</u>	<u>12,035,147</u>

Less unamortized discount and allowance for uncollectible accounts	(260,979)	(249,919)
Contributions receivable, net	<u>\$ 8,450,427</u>	<u>\$ 11,785,228</u>

Discount rates used to calculate the present value of pledges receivable ranged from 1.38% to 1.89%.

(4) FAIR VALUE AND INVESTMENTS

The following table summarizes the valuation of the College's investments and other assets at June 30, 2017.

	QUOTED PRICES IN ACTIVE MARKETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	INVESTMENTS MEASURED AT NET ASSET VALUE	2017 TOTAL	REDEMPTION
Long term investments						
Cash and cash equivalents	\$ 965	\$ —	\$ —	\$ —	\$ 965	Daily
U.S. equity:						
Large Cap	3,710,292	—	—	—	3,710,292	Daily
Small Cap	832,392	—	—	—	832,392	Daily
Exchange Traded Treasury Administered Fund	358,239	—	—	—	358,239	Daily
Non-U.S. equity funds	990,049	—	—	13,829,447	14,819,496	Monthly/Quarterly
Fixed income	3,690,800	—	—	—	3,690,800	Daily
Hedge funds	—	—	—	6,984,074	6,984,074	Quarterly
Real asset	2,128,278	—	—	1,154,493	3,282,771	Daily/Monthly
Private equity	—	—	14,210,989	—	14,210,989	Illiquid
Private partnerships	—	—	—	527,679	527,679	Illiquid
Pooled life income funds and other	—	—	261,251	—	261,251	N/A
Total investments	11,711,015	—	14,472,240	22,495,693	48,678,948	
Other assets						
Funds held in trust by others	—	—	2,490,614	—	2,490,614	N/A
Funds held by bond trustee ⁽¹⁾	378,273	—	—	—	378,273	Daily
Total	<u>\$ 12,089,288</u>	<u>\$ —</u>	<u>\$ 16,962,854</u>	<u>\$ 22,495,693</u>	<u>\$ 51,547,835</u>	

⁽¹⁾ Funds held by bond trustee are primarily U.S. Treasury securities.

(4) FAIR VALUE AND INVESTMENTS (CONTINUED)

The following table summarizes the valuation of the College's investments and other assets at June 30, 2016.

	QUOTED PRICES IN ACTIVE MARKETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	INVESTMENTS MEASURED AT NET ASSET VALUE	2016 TOTAL	REDEMPTION
Long term investments						
Cash and cash equivalents	\$ 880	\$ —	\$ —	\$ —	\$ 880	Daily
U.S. equity:						
Large Cap	3,230,560	—	—	—	3,230,560	Daily
Small Cap	793,670	—	—	—	793,670	Daily
Exchange Traded Treasury Administered Fund	854,648	—	—	—	854,648	Daily
Non-U.S. equity funds	—	—	—	11,428,524	11,428,524	Monthly/quarterly
Fixed income	2,742,389	—	—	—	2,742,389	Daily
Hedge Funds	—	—	—	6,992,003	6,992,003	Quarterly
Real asset	1,381,315	—	—	1,147,508	2,528,823	Daily/Monthly
Private equity	—	—	8,891,792	—	8,891,792	Illiquid
Private partnerships	—	—	—	524,104	524,104	Illiquid
Pooled life income funds and other	—	—	251,358	—	251,358	N/A
Total investments	9,003,462	—	9,143,150	20,092,139	38,238,751	
Other assets						
Funds held in trust by others	—	—	2,467,276	—	2,467,276	N/A
Funds held by bond trustee ⁽¹⁾	341,001	—	—	—	341,001	Daily
Total	<u>\$ 9,344,463</u>	<u>\$ —</u>	<u>\$ 11,610,426</u>	<u>\$ 20,092,139</u>	<u>\$ 41,047,028</u>	

⁽¹⁾ Funds held by bond trustee are primarily cash, cash equivalents and U.S. Treasury securities.

There were no changes in methodologies used at June 30, 2017 and 2016 and there were no transfers among levels during the years ended June 30, 2017 and 2016.

(4) FAIR VALUE AND INVESTMENTS (CONTINUED)

The following table presents the College's activity for the fiscal years ended June 30, 2017 and 2016 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	PRIVATE EQUITY	FUNDS HELD BY OTHERS	TOTAL
Fair value June 30, 2016	\$ 8,891,792	\$ 2,718,634	\$11,610,426
Acquisitions	—	2,641	2,641
Dispositions	—	(4,837)	(4,837)
Unrealized gains/losses	5,319,197	35,427	5,354,624
Fair value June 30, 2017	<u>\$ 14,210,989</u>	<u>\$ 2,751,865</u>	<u>\$16,962,854</u>
Fair value June 30, 2015	\$ 8,891,792	\$ 2,550,049	\$11,441,841
Acquisitions	—	101,622	101,622
Dispositions	—	(3,791)	(3,791)
Unrealized gains/losses	—	70,754	70,754
Fair value June 30, 2016	<u>\$ 8,891,792</u>	<u>\$ 2,718,634</u>	<u>\$11,610,426</u>

At June 30, 2017, the College did not have any remaining outstanding commitments to private partnerships based on the provisions of the individual agreements, with adjustments as to amounts and timing based on prior actions of the partnerships and expectations as to future opportunities. The College's total investment return is summarized below:

	2017	2016
Dividends and interest	\$ 684,089	687,303
Realized/ unrealized gains (losses) on investments	9,347,039	(924,234)
Management fees and other costs	(358,012)	(315,734)
Total return on investments	<u>9,673,116</u>	<u>(552,665)</u>
Investment income used in operations	<u>(1,917,247)</u>	<u>(1,915,265)</u>
Nonoperating investment income	<u>\$ 7,755,869</u>	<u>(2,467,930)</u>

(5) ENDOWMENT FUNDS

The College's endowment consists of approximately 250 individual funds established for a variety of purposes, including both donor restricted endowment funds and funds designated by the College to function as endowments (quasi endowments).

Endowment funds share in an investment pool on a unit market value basis. Funds are added to and withdrawn from the pool at the then current unit market value of the pooled assets. The College uses a total return approach to managing endowment investments. Funds are invested to maximize total return consistent with prudent risk without regard to the mix of current investment income and realized and unrealized gains or losses.

Giving consideration to The Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the Commonwealth of Massachusetts, the College has prepared these financial statements on the basis that the original gifts of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary, must be preserved. As a result, the College classifies as permanently restricted net assets (a) the original value of the 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 determining appropriate spending levels from donor-restricted endowment funds: duration and preservation of the endowment fund, purposes of the College and the endowed fund, general economic conditions, possible effects of inflation or deflation, expected total return from income and the appreciation of investments, other resources of the College, and the investment policy of the College.

Investment return is distributed for operations on a unit share basis. The spending policy limits the annual distribution of return based upon a twelve quarter average market value. For 2017 and 2016, the percentage distributed was 4.5%.

In addition to the 4.5% draw, there was a board approved draw of \$250,000 for both years ended June 30, 2017 and 2016 to support a fundraising campaign. In 2015, the board also approved \$2.3 million of endowment draws to support capital projects and early retirements for the years 2015 through 2017. Hampshire drew the final \$300,000 for the year ended June 30, 2017. The College drew \$1.05 million for the year ended June 30, 2016 and \$950,000 for the year ended June 30, 2015. The draw was a transfer of money out of quasi endowment to operations.

As a result of market declines, the fair value of certain donor-restricted endowments may fall below original contributed value. Deficiencies of this nature were reported as reductions of unrestricted net assets in the amount of \$1,252 and \$278,740 at June 30, 2017 and 2016, respectively. Future market gains will be used to restore this reduction in unrestricted net assets before any net appreciation above the UPMIFA or donor required value of such funds increases temporarily restricted net assets.

(5) ENDOWMENT FUNDS (CONTINUED)

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. Donor restricted amounts reported below include term endowments reported as temporarily restricted net assets; and cumulative unspent appreciation, reported as temporarily restricted net assets.

Endowment funds, which include pooled endowment funds but exclude split interest agreements and pledges, consisted of the following at June 30, 2017 and 2016.

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
June 30, 2017				
Donor restricted	\$ (1,252)	\$ 7,731,544	\$ 28,229,781	\$ 35,960,073
Board designated (Quasi)	12,501,597	—	—	12,501,597
Total	<u>\$ 12,500,345</u>	<u>\$ 7,731,544</u>	<u>\$ 28,229,781</u>	<u>\$ 48,461,670</u>
June 30, 2016				
Donor restricted	\$ (278,740)	\$ 2,189,767	\$ 26,826,676	\$ 28,737,703
Board designated (Quasi)	10,868,568	—	—	10,868,568
Total	<u>\$ 10,589,828</u>	<u>\$ 2,189,767</u>	<u>\$ 26,826,676</u>	<u>\$ 39,606,271</u>

Changes in endowment funds for the fiscal year ended June 30, 2017 were as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
June 30, 2016	\$ 10,589,828	\$ 2,189,767	\$ 26,826,676	\$ 39,606,271
Investment return	2,914,297	6,755,244	—	9,669,541
Contributions	—	—	1,403,105	1,403,105
Appropriated to operations	(703,780)	(1,213,467)	—	(1,917,247)
Appropriated to operations - special draw	(300,000)	—	—	(300,000)
June 30, 2017	<u>\$ 12,500,345</u>	<u>\$ 7,731,544</u>	<u>\$ 28,229,781</u>	<u>\$ 48,461,670</u>

Changes in endowment funds for the fiscal year ended June 30, 2016 were as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
June 30, 2015	\$ 12,777,928	\$ 3,490,489	\$ 23,039,294	\$ 39,307,711
Other transfers	—	—	(61,884)	(61,884)
Investment return	(1,797)	(551,956)	—	(553,753)
Contributions	10,000	—	3,849,266	3,859,266
Appropriated to operations	(1,146,303)	(748,766)	—	(1,895,069)
Appropriated to operations - special draw	(1,050,000)	—	—	(1,050,000)
June 30, 2016	<u>\$ 10,589,828</u>	<u>\$ 2,189,767</u>	<u>\$ 26,826,676</u>	<u>\$ 39,606,271</u>

(6) FUNDS HELD IN TRUST BY OTHERS

The College is irrevocably named as a beneficiary of funds held by third-party trustees, the purpose of which may be restricted by the donor. Generally, the College will receive a specified portion of the assets remaining when the third-party trusts are terminated. The present value of the amount to be received upon termination is recorded by the College as funds held in trust on the statements of financial position and as contribution revenue on the statement of activities using a discount rate of 3.79% for both 2017 and 2016. Funds held in trust by others totaled \$2,490,614 and \$2,467,276 at June 30, 2017 and 2016, respectively.

(7) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following at June 30:

	USEFUL LIFE	2017	2016
Land	-	\$ 3,877,606	\$ 3,877,606
Land improvements	30	6,628,451	6,519,329
Library collection	10	7,667,603	7,639,588
Vehicles	10	1,013,814	994,016
Equipment	3-5	23,384,719	22,489,562
Building and building improvements	10-50	84,722,570	83,416,749
		<u>127,294,763</u>	<u>124,936,850</u>
Accumulated depreciation		(73,907,486)	(71,124,769)
		<u>53,387,277</u>	<u>53,812,081</u>
Construction in progress		2,090,554	1,740,044
		<u>\$ 55,477,831</u>	<u>\$ 55,552,125</u>

Depreciation expense was \$2,933,895 and \$2,602,741 at June 30, 2017 and 2016, respectively.

(8) DEBT

The College has debt agreements with the Department of Housing and Urban Development (HUD), a realty trust, and banks for the financing of certain buildings and equipment.

The details of the long-term debt outstanding as of June 30 are as follows:

ISSUE	MATURITY DATE	INTEREST RATE AT JUNE 30, 2017 AND 2016	AMOUNT OUTSTANDING	
			2017	2016
Realty Trust Note	2022	6.01%	\$ 470,185	\$ 540,232
HUD Project 136(D)	2019	0.03	120,000	180,000
Series 2012 Bond	2032	2.76	12,349,883	12,790,065
Series 2016 Bond	2046	2.80	15,000,000	15,000,000
			<u>27,940,068</u>	<u>28,510,297</u>
Less: Unamortized financing costs			(426,875)	(481,375)
			<u>\$ 27,513,193</u>	<u>\$ 28,028,922</u>

The HUD project, Series 2012 and 2016 Bonds, and Realty Trust debt are collateralized by certain facilities, equipment, and premises. The College is required to meet various covenants on an annual basis with respect to its long-term debt. Interest expense incurred on debt financing totaled \$770,164 and \$529,774 in 2017 and 2016, respectively.

Principal payments on all short term and long-term debt are as follows:

	AMOUNT
2018	\$ 736,604
2019	964,740
2020	931,197
2021	962,528
2022	992,947
Thereafter	<u>23,352,052</u>
	<u>\$ 27,940,068</u>

(9) NET ASSETS

The composition of the categories of net assets as of June 30, 2017 and 2016 consists of:

	2017	2016
Temporarily restricted net assets:		
Accumulated net gains on permanently endowed funds	\$ 7,731,542	\$ 2,189,765
Restricted by donors for capital	33,729	167,496
Restricted by donors for programs	8,639,662	6,862,474
Contributions receivable for programs	5,436,116	10,036,271
	<u>\$ 21,841,049</u>	<u>\$ 19,256,006</u>
Permanently restricted net assets:		
Morgan Venture Fund	\$ 527,678	\$ 524,102
Contributions receivable for permanent endowment	3,014,311	1,748,957
Funds held in trust by others	2,490,614	2,467,276
Permanent endowment and similar funds	28,229,781	26,826,678
	<u>\$ 34,262,384</u>	<u>\$ 31,567,013</u>

(10) COMMITMENTS UNDER OPERATING LEASES

The College has entered into certain operating lease agreements. Lease expense in 2017 and 2016 amounted to \$275,376 and \$323,522, respectively.

Payments under these agreements are as follows:

	AMOUNT
2018	\$ 2 36,636
2019	2 28,020
2020	2 26,297
2021	1 86,064
2022	1 37,738
	<u>\$ 1 014,755</u>

(11) RETIREMENT PLAN

Contributions made by the College for the TIAA-CREF Retirement Plan were \$2,185,658 and \$2,159,539 during fiscal years 2017 and 2016, respectively, for eligible and enrolled employees based on a portion of salaries from 9.5% to 10%. In addition, the employees enrolled in the plan contributed a portion of their salaries ranging from 3% to 5%.

(12) LINE OF CREDIT

The College had an uncollateralized demand line of credit in the amount of \$2,500,000 which expired on February 28, 2017. Management elected not to renew the line of credit after the expiration date. There was no amount outstanding on the line of credit at June 30, 2016.

(13) SUBSEQUENT EVENTS

The College evaluated subsequent events for potential recognition or disclosure through December 15, 2017, the date on which the financial statements were issued.

Trustees and Officers

JUNE 30, 2017

OFFICERS OF THE CORPORATION

GAYE HILL, Chair
DAVID DINERMAN, Vice Chair
LUIS A. HERNANDEZ, Vice Chair
MARY MCENEANY, Treasurer
BETH IONE WARD, Secretary of the College

THE TRUSTEES OF HAMPSHIRE COLLEGE

JULY 1, 2016 – JUNE 30, 2017

FRASER BENNETT BEEDE, Northampton, MA
JUDY N. BORNSTEIN (Alum), San Mateo, CA
DAYNA L. CUNNINGHAM (Parent), Brookline, MA
NIRMAN DAVE (Student Trustee Alternate), Gujarat, India
EDWARD CHURCHWELL DEES, JR. (Alum), New Orleans, LA
DAVID DINERMAN (Vice Chair, Alum), Lafayette, CA
ANNE M. DOWNES (Staff Trustee), Northampton, MA
LINDA A. EARLE (Alum), New York, NY
SASCHA FREUDENHEIM (Alum), New York, NY
JOSE FUENTES (Alum), New York, NY
CAROLYN GREENSPAN (Parent), Wallingford, CT
LUIS A. HERNANDEZ (Vice Chair, Alum), Miami, FL
GAYE HILL (Chair, Parent), Chicago, IL
S. REBECCA HOLLAND (Alum), Brooklyn, NY
RICHARD M. HURD (Alum), Chestnut Hill, MA
MARY BETH JAMES (Alum), Portland, OR
STEPHAN F. JOST (Alum), Toronto, Ontario, Canada
JONATHAN LASH (President), Amherst, MA
DAVID H. MATHESON (Parent), Concord, MA
ROBERT MCCARTHY, JR. (Alum), Hong Kong, China
LUCY-ANN MCFADDEN (Alum), Bethesda, MD
ALI MIRSEPASSI (Parent), Cranbury, NJ
WILLIAM NULL (Alumni Trustee, Parent), Sleepy Hollow, NY
ANNIE G. ROGERS (Faculty Trustee), Amherst, MA
A. KIM SAAL (Alum), Northampton, MA

CAROL SALZMAN (Alum), Bethesda, MD
EDUARDO SAMANIEGO (Student Trustee), Kennesaw, GA
PASHA DRITT THORNTON (Alum), San Francisco, CA
MARIA VALLEJO (Alum), Wellington, FL
CAROL VARNEY (Alumni Trustee), San Francisco, CA

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FRASER BENNETT BEEDE
JUDY N. BORNSTEIN
CAROLYN GREENSPAN
DAVID MATHESON
MARY MCENEANY, Secretary

OFFICERS OF THE COLLEGE

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EVA RUESCHMANN, Vice President for Academic Affairs and Dean of Faculty
BYRON MCCRAE, Vice President for Student Affairs and Dean of Students
MARY MCENEANY, Vice President for Finance and Administration and Treasurer
BETH IONE WARD, Secretary of the College

FINANCIAL OFFICERS

MARY MCENEANY, Vice President for Finance and Administration