

HAMPSHIRE COLLEGE

Financial Statements

Year Ended June 30, 2019

(With Comparative Totals for June 30, 2018)

(With Independent Auditors' Report Thereon)



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HAMPSHIRE COLLEGE

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Years Ended June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hampshire College
Amherst, Massachusetts

We have audited the accompanying financial statements of Hampshire College (a nonprofit organization) (the College), which comprise the statement of financial position as of June 30, 2019, 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

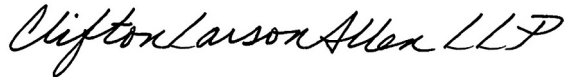
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hampshire College as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As described in Note 1, the College adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Hampshire College's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



CliftonLarsonAllen LLP

Boston, Massachusetts
February 13, 2020

HAMPSHIRE COLLEGE
Statement of Financial Position
June 30, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
Cash and cash equivalents	\$ 7,175,399	\$ 5,819,601
Accounts and loans receivable, net (Note 2)	332,595	457,022
Contributions receivable, net (Note 3)	3,763,396	6,264,180
Prepaid expenses, inventories and other assets	93,329	536,081
Investments - at fair value (Note 4)	54,042,237	52,495,580
Funds held in trust by others (Notes 4 and 6)	2,491,870	2,481,077
Property, plant and equipment, net (Note 7)	50,689,396	53,728,467
TOTAL ASSETS	\$ 118,588,222	\$ 121,782,008
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 752,950	\$ 1,081,965
Deposits and deferred income	1,169,892	1,624,183
Contingent asset retirement obligation	3,190,559	3,191,333
Long term debt, net (Note 8)	25,901,767	26,746,515
TOTAL LIABILITIES	31,015,168	32,643,996
<u>NET ASSETS</u>		
Net Assets without Donor Restrictions (Note 9)	32,663,198	30,242,192
Net Assets with Donor Restrictions (Note 9)	54,909,856	58,895,820
TOTAL NET ASSETS	87,573,054	89,138,012
TOTAL LIABILITIES AND NET ASSETS	\$ 118,588,222	\$ 121,782,008

See accompanying Notes to Financial Statements.

HAMPSHIRE COLLEGE

Statement of Activities

Year Ended June 30, 2019

(With Comparative Totals for the Year Ended June 30, 2018)

<u>Operating Activities</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 6/30/2019</u>	<u>Total 6/30/2018</u>
Revenues and other additions:				
Tuition, room, board and other fees	\$ 68,152,598	\$ -	\$ 68,152,598	\$ 72,378,860
Less: student aid awarded	(32,383,400)	-	(32,383,400)	(33,461,994)
Net tuition and fees	35,769,198	-	35,769,198	38,916,866
Contributions, gifts and grants	4,684,023	2,722,710	7,406,733	5,848,048
Other income	8,774,915	-	8,774,915	541,705
Investment income for operations (Note 4)	1,152,028	1,433,288	2,585,316	4,499,509
Other auxiliary enterprises	2,614,365	-	2,614,365	2,675,462
Net assets released from restrictions for operating purposes	10,011,710	(10,011,710)	-	-
Total operating revenues and other support	63,006,239	(5,855,712)	57,150,527	52,481,590
Expenses and other deductions:				
Instruction	16,065,857	-	16,065,857	20,356,898
Research	2,946,309	-	2,946,309	3,303,123
Student services	7,592,582	-	7,592,582	8,427,821
Institutional support	20,107,972	-	20,107,972	13,376,450
Academic support	5,640,622	-	5,640,622	3,609,842
Auxiliary enterprises	7,875,641	-	7,875,641	6,814,388
Total operating expenses and other deductions	60,228,983	-	60,228,983	55,888,522
Change in net assets from operating activities	2,777,256	(5,855,712)	(3,078,456)	(3,406,932)
<u>Nonoperating Activities</u>				
Contributions for long-term investment	75,130	1,381,611	1,456,741	2,623,898
Net return on long-term investments (Note 4)	484,610	2,011,583	2,496,193	7,098,563
Investment income for operations (Note 4)	(1,152,028)	(1,433,288)	(2,585,316)	(4,499,509)
Other deductions	98,548	47,332	145,880	(1,231,916)
Net assets released from restrictions for nonoperating purposes	137,490	(137,490)	-	-
Change in net assets from nonoperating activities	(356,250)	1,869,748	1,513,498	3,991,036
Total change in net assets	2,421,006	(3,985,964)	(1,564,958)	584,104
Net assets, beginning of year	30,242,192	58,895,820	89,138,012	88,553,908
Net assets, end of year	\$ 32,663,198	\$ 54,909,856	\$ 87,573,054	\$ 89,138,012

See accompanying Notes to Financial Statements.

HAMPSHIRE COLLEGE

Statement of Cash Flows

Year Ended June 30, 2019

(With Comparative Totals for the Year Ended June 30, 2018)

	2019	2018
Cash provided by operating activities:		
Change in net assets	\$ (1,564,958)	\$ 584,104
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	3,039,315	3,103,542
Bad debt expense	5,710,489	73,489
Net realized and unrealized (gains)	(2,019,912)	(6,754,108)
Contributions for permanently restricted endowment	(1,381,611)	(2,355,128)
Change in accounts and loans receivable	90,400	37,369
Change in funds held in trust by others	(10,793)	9,537
Change in contributions receivable	(3,001,449)	2,186,247
Change in prepaid expenses, inventories, and other assets	442,747	(363,342)
Change in accounts payable and accrued expenses	(329,014)	(883,819)
Change in deposits payable and deferred revenues	(454,291)	(22,671)
Change in conditional asset retirement obligation	(774)	30,394
Change in actuarial liability for life income obligation	-	(2,979)
Net cash used by operating activities	520,149	(4,357,365)
Cash used by investing activities:		
Purchase of property, plant and equipment	(551,550)	(1,356,353)
Proceeds from property, plant, and equipment	770,328	-
Change in employee mortgages and notes receivable	99,771	116,961
Purchase of investments	(3,238,132)	(3,498,208)
Sale and maturities of investments	3,392,597	6,435,684
Change in deposits with bond trustee	-	378,273
Net cash provided by investing activities	473,014	2,076,357
Cash provided by financing activities:		
Repayment of long term debt	(844,747)	(766,679)
Contributions for permanently restricted endowment	1,207,382	2,355,128
Net cash provided by financing activities	362,635	1,588,449
Net change in cash and cash equivalents	1,355,798	(692,559)
Cash and cash equivalents, beginning of year	5,819,601	6,512,160
Cash and cash equivalents, end of year	\$ 7,175,399	\$ 5,819,601

See accompanying Notes to Financial Statements.

HAMPSHIRE COLLEGE

Statement of Cash Flows (Continued)

Year Ended June 30, 2019

(With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ <u>765,604</u>	\$ <u>792,080</u>

See accompanying Notes to Financial Statements.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(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 1,120 and 1,241 during fiscal years 2019 and 2018, respectively.

During fiscal 2019, Hampshire College was in a state of extraordinary transition and experienced major changes in organization and plans. These led to financial and operating changes including the resignation of several Trustees, the President, and several other senior officials, as well as manageable reductions to faculty and staff. The effects of these changes increased 2019 operating expenses and cancelled more than \$5.5 million in prior fundraising pledges; they are included in the 2019 financial statements. Hampshire has been leading a turnaround since April, 2019: it appointed a new president who has secured the administration; appointed new trustees and bolstered best practices in Board governance; and developed realistic institutional plans for financial sustainability, fundraising, and enrollment management.

(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:

Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations but may be designated for specific purposes by action of the board of trustees or management.

With Donor Restrictions – Net assets whose use by the College is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the College pursuant to those stipulations. This category includes realized and unrealized gains on donor restricted endowment funds that have not been appropriated for expenditure by the board of trustees in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This category also includes net assets whose corpus is restricted by the donor to be invested in perpetuity whose income may be made available for stipulated purposes.

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 net assets without donor restrictions. Gains and losses on investments based on the existence or absence of donor-imposed restrictions, are reported as increases or decreases in net assets with donor restrictions or net assets without donor restrictions 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 donor 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 net assets with donor restrictions to net assets without donor restrictions. 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 revenues without donor restrictions when they are earned.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies (Continued)

(c) *Operating Activities*

The statement of activities includes all of the College's revenues and expenses as part of operating activities except for changes in value of split interest agreements, gifts for long-term investment, and realized and unrealized gains (losses) on investments, net of amount appropriated for operations. The investment earnings appropriated for operations include the College's annual spending distribution and additional draws that are approved by the board of directors. See note 5 for additional details related to investment earnings that were approved by the board of trustees and appropriated for operations.

(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.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies (Continued)

(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.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies (Continued)

(h) *Investment in Plant (continued)*

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) *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.

(l) *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. Expenses are allocated per building, by square footage. All functional expense categories, with the 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.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies (Continued)

(m) *Change in Accounting Principle*

The College has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity. The effect of adopting the new standard resulted in a reclassification of net assets without donor restrictions to net assets with donor restrictions of \$283 during the year ended June 30, 2018 as a result of the change in required reporting for underwater endowment funds.

(n) *Change in Accounting Principle*

On May 28, 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The standard will be effective for the College for annual reporting periods beginning after December 15, 2018,

In June 2018, FASB issued an ASU 2018-08 Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The ASU provides guidance on distinguishing between contributions and exchange transactions. If a contribution is unconditional, the entity must determine whether it is donor restricted for limited purpose or timing. These contributions should be recognized immediately and classified as net assets with or without donor restrictions. If a contribution is conditional and net assets are received in advance, the entity should record a liability and not recognize revenue until conditions are met. Guidance is further provided regarding reciprocal and nonreciprocal transactions. If both parties receive similar value, the transaction is considered reciprocal. The standard will be effective for the College for annual reporting periods beginning after December 15, 2018.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020.

Management is evaluating the impact of the above standards on the College's financial statements.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(2) Accounts and Loans Receivable

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

	<u>2019</u>	<u>2018</u>
0-90 Days	\$ 45,828	\$ 65,829
91-180 Days	40,493	39,663
181-360 Days	149,177	221,625
Over 360 Days	414,556	272,243
	<u>\$ 650,054</u>	<u>\$ 599,360</u>

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

	<u>2019</u>	<u>2018</u>
Student accounts	\$ 650,054	\$ 599,360
Other	151,816	305,690
Student loans	-	(1,103)
	<u>801,870</u>	<u>903,947</u>
Less allowance for uncollectible accounts	(469,275)	(446,925)
Accounts and loans receivable, net	<u>\$ 332,595</u>	<u>\$ 457,022</u>

Bad debt expense amounted to approximately \$34,000 and \$73,000 as of June 30, 2019 and 2018, respectively

(3) Contributions Receivable

Contributions receivable are summarized as follows at June 30:

Unconditional promises expected to be collected:

	<u>2019</u>	<u>2018</u>
In one year or less	\$ 1,891,608	\$ 2,909,841
Between one and five years	2,084,146	3,547,924
In more than five years	400	-
	<u>3,976,154</u>	<u>6,457,765</u>
Less unamortized discount and allowance for uncollectible accounts	(212,758)	(193,585)
Contributions receivable, net	<u>\$ 3,763,396</u>	<u>\$ 6,264,180</u>

Discount rates used to calculate the present value of contributions receivable ranged from 2.52% to 2.73%. Bad debt expense amounted to approximately \$5,710,000 and \$-0- as of June 30, 2019 and 2018, respectively.

HAMPSHIRE COLLEGE
Notes to Financial Statements
June 30, 2019 and 2018

(4) Fair Value and Investments

The following table summarizes the valuation of the College's investments and other assets at June 30, 2019.

	Quoted Prices in Active Markets - Level 1	Significant Other Observable Inputs - Level 2	Significant Unobservable Inputs - Level 3	Investments Measured at Net Asset Value	2019 Total	Redemption
Long-term investments:						
U.S. equity:						
Large Cap	\$ 4,532,785	\$ -	\$ -	\$ -	4,532,785	Daily
Exchange Traded Treasury Administered Fund	127,204	-	-	-	-	Daily
Non-U.S. equity fund	1,709,915	-	-	13,339,001	15,048,916	Monthly/Quarterly
Fixed income	4,027,311	-	-	-	4,027,311	Daily
Hedge funds	-	-	-	7,028,049	7,028,049	Quarterly
Real asset	3,689,714	-	-	700,555	4,390,269	Daily/Monthly
Private equity	-	-	18,232,677	-	18,232,677	Illiquid
Private partnerships	-	-	-	506,520	506,520	Illiquid
Pooled life income funds and other	-	-	100,134	-	100,134	N/A
Total investments measured at fair value	<u>14,086,929</u>	<u>-</u>	<u>18,332,811</u>	<u>21,574,125</u>	<u>53,866,661</u>	
Cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>175,576</u>	Daily
Total investments	<u>14,086,929</u>	<u>-</u>	<u>18,332,811</u>	<u>21,574,125</u>	<u>54,042,237</u>	
Other assets:						
Funds held in trust by others	<u>-</u>	<u>-</u>	<u>2,491,870</u>	<u>-</u>	<u>2,491,870</u>	N/A
Total	<u>\$ 14,086,929</u>	<u>\$ -</u>	<u>\$ 20,824,681</u>	<u>\$ 21,574,125</u>	<u>\$ 56,709,683</u>	

The College's private equity fund investment is generally illiquid; however, subsequent to year end the College had a liquidation event in which certain shares were repurchased from the College. The proceeds from the purchase was \$13,274,214 and was paid in November of 2019. The liquidation value was substantially similar to the value of the stock as of June 30, 2019.

HAMPSHIRE COLLEGE
Notes to Financial Statements
June 30, 2019 and 2018

(4) Fair Value and Investments (Continued)

The following table summarizes the valuation of the College's investments and other assets at June 30, 2018.

	Quoted Prices in Active Markets - Level 1	Significant Other Observable Inputs - Level 2	Significant Unobservable Inputs - Level 3	Investments Measured at Net Asset Value	2018 Total	Redemption
Long-term investments:						
U.S. equity:						
Large Cap	\$ 3,517,733	\$ -	\$ -	\$ -	3,517,733	Daily
Small Cap	-	-	-	-	-	Daily
Exchange Traded Treasury Administered Fund	121,786	-	-	-	121,786	Daily
Non-U.S. equity fund	1,033,325	-	-	13,318,210	14,351,535	Monthly/Quarterly
Fixed income	3,766,252	-	-	-	3,766,252	Daily
Hedge funds	-	-	-	7,380,758	7,380,758	Quarterly
Real asset	3,633,174	-	-	644,110	4,277,284	Daily/Monthly
Private equity	-	-	18,101,148	-	18,101,148	Illiquid
Private partnerships	-	-	-	527,921	527,921	Illiquid
Pooled life income funds and other	-	-	100,134	-	100,134	N/A
Total investments measured at fair value	<u>12,072,270</u>	<u>-</u>	<u>18,201,282</u>	<u>21,870,999</u>	<u>52,144,551</u>	
Cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351,029</u>	Daily
Total investments	<u>12,072,270</u>	<u>-</u>	<u>18,201,282</u>	<u>21,870,999</u>	<u>52,495,580</u>	
Other assets:						
Funds held in trust by others	<u>-</u>	<u>-</u>	<u>2,481,077</u>	<u>-</u>	<u>2,481,077</u>	N/A
Total	<u>\$ 12,072,270</u>	<u>\$ -</u>	<u>\$ 20,682,359</u>	<u>\$ 21,870,999</u>	<u>\$ 55,327,686</u>	

There were no changes in methodologies used at June 30, 2019 and 2018 and there were no transfers among levels during the years ended June 30, 2019 and 2018.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(4) Fair Value and Investments (Continued)

The following table presents the College's activity for the fiscal years ended June 30, 2019 and 2018 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	<u>Private Equity</u>	<u>Funds Held by Others and Pooled Life Income Funds</u>	<u>Total</u>
Fair value June 30, 2018	\$ 18,101,148	\$ 2,581,211	\$ 20,682,359
Acquisitions	52,138	-	52,138
Dispositions	-	-	-
Unrealized gains/losses	79,391	10,793	90,184
Fair value June 30, 2019	<u>\$ 18,232,677</u>	<u>\$ 2,592,004</u>	<u>\$ 20,824,681</u>
Fair value June 30, 2017	\$ 14,210,989	\$ 2,590,748	\$ 16,801,737
Acquisitions	-	-	-
Dispositions	-	-	-
Unrealized gains/losses	3,890,159	(9,537)	3,880,622
Fair value June 30, 2018	<u>\$ 18,101,148</u>	<u>\$ 2,581,211</u>	<u>\$ 20,682,359</u>

At June 30, 2019, the College did not have any remaining outstanding commitments for Level 3 investments 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:

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 818,383	\$ 731,363
Realized/ unrealized gains (losses) on investments	2,019,912	6,754,108
Management fees and other costs	(342,102)	(386,908)
Total return on investments	<u>2,496,193</u>	<u>7,098,563</u>
Investment income used in operations	(2,585,316)	(4,499,509)
Nonoperating investment income	<u>\$ (89,123)</u>	<u>\$ 2,599,054</u>

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(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 net assets with donor restrictions (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 classified as net assets with donor restrictions 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 2019 and 2018, the percentage distributed was 4.5%.

In addition to the 4.5% draw, there was a board approved draw of \$100,000 and \$250,000 for the years ended June 30, 2019 and 2018, respectively, to support a fundraising campaign. In 2018, the board approved \$3.250 million of endowment draws to support a Voluntary Separation Incentive Program as well as other financial sustainability initiatives. The College drew \$2,550,000 for the year ended June 30, 2018 and drew the remaining \$700,000 in FY19. 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 net assets with donor restrictions in the amount of \$-0- and \$283 at June 30, 2019 and 2018, respectively. Future market gains will be used to restore this reduction in net assets with donor restrictions before any net appreciation above the UPMIFA or donor required value of such funds increases net assets with donor restrictions.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(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 net assets with donor restrictions; and cumulative unspent appreciation, reported as net assets with donor restrictions.

Endowment funds, which include pooled endowment funds but exclude split interest agreements and pledges, consisted of the following at June 30, 2019 and 2018.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2019			
Donor Restricted	\$ -	\$ 44,089,253	\$ 44,089,253
Board designated (Quasi)	10,440,679	-	10,440,679
Total	<u>\$ 10,440,679</u>	<u>\$ 44,089,253</u>	<u>\$ 54,529,932</u>
June 30, 2018			
Donor Restricted	\$ -	\$ 42,329,366	\$ 42,329,366
Board designated (Quasi)	11,106,967	-	11,106,967
Total	<u>\$ 11,106,967</u>	<u>\$ 42,329,366</u>	<u>\$ 53,436,333</u>

Changes in endowment funds for the fiscal year ended June 30, 2019 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2018	\$ 11,106,967	\$ 42,329,366	\$ 53,436,333
Investment return	484,610	1,985,793	2,470,403
Contributions	1,130	1,207,382	1,208,512
Appropriated to operations	(1,152,028)	(1,433,288)	(2,585,316)
June 30, 2019	<u>\$ 10,440,679</u>	<u>\$ 44,089,253</u>	<u>\$ 54,529,932</u>

Changes in endowment funds for the fiscal year ended June 30, 2018 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2017	\$ 12,500,628	\$ 35,961,044	\$ 48,461,672
Investment return	1,815,777	5,282,543	7,098,320
Contributions	20,722	2,355,128	2,375,850
Appropriated to operations	(3,230,160)	(1,269,349)	(4,499,509)
June 30, 2018	<u>\$ 11,106,967</u>	<u>\$ 42,329,366</u>	<u>\$ 53,436,333</u>

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(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 2019 and 2018. Funds held in trust by others totaled \$2,491,870 and \$2,481,077 at June 30, 2019 and 2018, respectively.

(7) Property, Plant, and Equipment

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

	<u>Useful Life</u>	<u>2019</u>	<u>2018</u>
Land	-	\$ 3,877,606	\$ 3,877,606
Land improvements	30	6,913,013	6,847,004
Library collection	10	7,732,563	7,714,850
Vehicles	10	1,046,729	1,016,545
Equipment	3-5	24,929,382	25,426,437
Building and building improvements	10-50	86,039,456	85,602,163
		<u>130,538,749</u>	<u>130,484,605</u>
Accumulated depreciation		<u>(80,021,110)</u>	<u>(76,981,795)</u>
		50,517,639	53,502,810
Construction in progress		171,757	225,657
		<u>\$ 50,689,396</u>	<u>\$ 53,728,467</u>

Depreciation expense was \$3,039,315 and \$3,103,542 at June 30, 2019 and 2018, respectively.

(8) Debt

The College has debt agreements with a realty trust and banks for the financing of certain buildings and equipment. The College had a debt agreement with the Department of Housing and Urban Development (HUD) which was paid in full as of June 30, 2018.

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

<u>Issue</u>	<u>Maturity Date</u>	<u>Interest Rate at June 30, 2019 and 2018</u>	<u>Amount Outstanding</u>	
			<u>2019</u>	<u>2018</u>
Realty Trust Note	2022	6.01%	\$ 316,840	\$ 395,810
Series 2012 Bond	2032	2.76	11,431,734	11,897,224
Series 2016 Bond	2046	2.80	14,521,037	14,850,430
			<u>26,269,611</u>	<u>27,143,464</u>
Less: Unamortized financing costs			<u>(367,844)</u>	<u>(396,949)</u>
			<u>\$ 25,901,767</u>	<u>\$ 26,746,515</u>

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(8) Debt (Continued)

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 \$770,199 and \$792,080 in 2019 and 2018, respectively.

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

	Amount
2020	\$ 931,197
2021	962,528
2022	992,947
2023	973,476
2024	948,707
Thereafter	21,460,756
	\$ 26,269,611

(9) Net Assets with Donor Restrictions

The composition of the categories of net assets as of June 30, 2019 and 2018 consists of:

	2019		2018	
	Net Assets Not Invested in Perpetuity	Net Assets Invested in Perpetuity	Net Assets Not Invested in Perpetuity	Net Assets Invested in Perpetuity
Accumulated net gains on endowments with donor restrictions	\$ 12,296,960	\$ -	\$ 11,744,455	\$ -
Restricted by donors for capital	3,142	-	97,698	-
Restricted by donors for programs	4,008,486	-	7,195,580	-
Contributions receivable for programs	2,979,942	-	3,225,754	-
Morgan Venture Fund	-	553,709	-	527,919
Contributions receivable for endowments with donor restrictions	-	783,454	-	3,038,426
Funds held in trust by others	-	2,491,870	-	2,481,077
Endowment funds with donor restrictions	-	31,792,293	-	30,584,911
	\$ 19,288,530	\$ 35,621,326	\$ 22,263,487	\$ 36,632,333

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(10) Commitments under Operating Leases

The College has entered into certain operating lease agreements. Lease expense in 2019 and 2018 amounted to \$161,147 and \$209,515, respectively.

Payments under these agreements are as follows:

	<u>Amount</u>
2020	\$ 161,062
2021	120,830
2022	72,504
2023	72,504
	<u>\$ 426,900</u>

(11) Retirement Benefits

Contributions made by the College for the TIAA-CREF Retirement Plan were \$1,541,341 and \$2,087,788 during fiscal years 2019 and 2018, respectively, for eligible and enrolled employees based on a portion of salaries from 8% to 10%. In addition, the employees enrolled in the plan contributed a portion of their salaries ranging from 3% to 5%. The College offered a “Voluntary Separation Incentive Program” to its employees during 2018. Employees received one year’s salary as compensation and elected to receive either one year of health insurance coverage or the College’s retirement match of 9.5% of their salary as a contribution to their TIAA retirement account. Total expenses paid by the College for this program during 2018 were \$1,385,514. Of this amount, \$1,152,844 was for salaries, \$83,255 was for taxes, \$96,550 was for health insurance costs and \$52,865 was for retirement contributions.

(12) Available Resources and Liquidity

The College regularly monitors liquidity required 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, equities, fixed income, and real assets.

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 instruction, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the College’s cash.

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(12) Available Resources and Liquidity (Continued)

As of June 30, 2019 and 2018, the following tables show the total financial assets held by the College and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and Cash Equivalents	\$ 7,175,399	\$ 5,819,601
Accounts and Loans Receivable, Net	332,595	457,022
Contributions Receivable, Net	2,979,942	6,264,180
Investments Convertible to Cash in the Next 12 Months	48,429,930	33,766,377
Total	<u>\$ 58,917,866</u>	<u>\$ 46,307,180</u>
Financial Assets Available to Meet General Expenditures:		
Cash and Cash Equivalents	\$ 7,175,399	\$ 5,819,601
Accounts and Loans Receivable, Net	332,595	457,022
Current Portion of Contributions Receivable	1,891,608	2,909,841
Appropriated Earnings from Endowment	1,562,186	2,585,316
Total	<u>\$ 10,961,788</u>	<u>\$ 11,771,780</u>

HAMPSHIRE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(13) Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The College reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS).

	2019							2018 Total
	Instruction	Academic Support	Research	Student Services	Auxiliary Enterprises	Institutional Support	Total	
Salaries and Wages	\$ 10,644,317	\$ 2,192,026	\$ 2,165,659	\$ 3,205,633	\$ 1,225,833	\$ 6,035,736	\$ 25,469,204	\$ 26,070,375
Employee Benefits	2,843,499	587,905	413,801	765,546	243,219	1,496,388	6,350,358	7,179,334
Supplies, Services, and Other	1,504,858	2,860,691	366,849	2,789,463	5,066,360	12,037,917	24,626,138	18,769,423
Depreciation	862,146	-	-	668,342	1,076,678	432,149	3,039,315	3,103,542
Interest	211,037	-	-	163,598	263,551	105,782	743,968	765,848
Total	\$ 16,065,857	\$ 5,640,622	\$ 2,946,309	\$ 7,592,582	\$ 7,875,641	\$ 20,107,972	\$ 60,228,983	\$ 55,888,522

(14) Subsequent Events

The College evaluated subsequent events for potential recognition or disclosure through February 13, 2020, the date on which the financial statements were issued.

