



HAMILTON COLLEGE

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

HAMILTON COLLEGE

Table of Contents

	Page(s)
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Cash Flows	5
Notes to Financial Statements	6-29



KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Trustees
Hamilton College:

We have audited the accompanying financial statements of Hamilton College, which comprise the statements of financial position as of June 30, 2019 and 2018, 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 U.S. generally accepted accounting principles; 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 Hamilton College as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1(q) to the financial statements, during the year ended June 30, 2019, the College adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

October 24, 2019

HAMILTON COLLEGE

Statements of Financial Position

June 30, 2019 and 2018

(Dollars in thousands)

Assets	2019	2018
Cash and cash equivalents	\$ 28,910	29,004
Short-term investments	17,469	17,118
Student and other accounts receivable including loans, net	3,601	2,919
Contributions receivable, net	15,708	10,571
Beneficial interest trusts	2,719	2,744
Deposits with trustees of debt obligations	4,760	4,714
Collateral received for securities lending	2,005	2,194
Medium-term investments	17,884	32,619
Investments	1,017,291	1,012,841
Other assets	3,876	4,114
Property, plant and equipment, net	251,807	253,528
Total assets	<u>\$ 1,366,030</u>	<u>1,372,366</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 9,903	8,845
Deposits and advances	1,664	2,590
Liability under securities lending transactions	2,005	2,194
Annuity and life income obligations	15,512	16,624
Accumulated postretirement benefit obligation	2,509	2,530
Other long-term obligations	3,185	3,177
Long-term debt	144,326	162,472
Total liabilities	<u>179,104</u>	<u>198,432</u>
Net assets:		
Without donor restrictions	290,625	273,884
With donor restrictions	896,301	900,050
Total net assets	<u>1,186,926</u>	<u>1,173,934</u>
Total liabilities and net assets	<u>\$ 1,366,030</u>	<u>1,372,366</u>

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statement of Activities

Year ended June 30, 2019

(Dollars in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Operating revenues:				
Tuition and fees, net of scholarship aid of \$34,806 in 2019	\$ 70,475	—	70,475	67,861
Room and board, net of scholarship aid of \$8,121 in 2019	17,316	—	17,316	16,916
Net student fees	87,791	—	87,791	84,777
Investment return designated for operations	5,384	35,152	40,536	38,874
Other investment income	2,917	—	2,917	3,461
Private gifts and grants	7,169	5,854	13,023	8,980
Other sources	3,525	—	3,525	3,876
Net assets released from restrictions	32,189	(32,189)	—	—
Total operating revenues	<u>138,975</u>	<u>8,817</u>	<u>147,792</u>	<u>139,968</u>
Operating expenses:				
Instruction	59,083	—	59,083	58,372
Research	1,413	—	1,413	1,031
Academic support	20,158	—	20,158	19,732
Student services	21,247	—	21,247	20,105
Institutional support	19,850	—	19,850	18,674
Auxiliary enterprises	20,872	—	20,872	20,889
Total operating expenses	<u>142,623</u>	<u>—</u>	<u>142,623</u>	<u>138,803</u>
Increase (decrease) in net assets from operations	<u>(3,648)</u>	<u>8,817</u>	<u>5,169</u>	<u>1,165</u>
Nonoperating activities:				
Private gifts	142	11,077	11,219	4,561
Investment return, net of amounts designated for operations	(969)	(3,925)	(4,894)	48,744
Change in annuity and life income obligations	—	1,889	1,889	2,354
Net assets released from restriction and changes in restrictions	21,639	(21,639)	—	—
Other	(423)	32	(391)	(375)
Increase (decrease) in net assets from nonoperating activities	<u>20,389</u>	<u>(12,566)</u>	<u>7,823</u>	<u>55,284</u>
Increase (decrease) in net assets	16,741	(3,749)	12,992	56,449
Net assets, beginning of year	<u>273,884</u>	<u>900,050</u>	<u>1,173,934</u>	<u>1,117,485</u>
Net assets, end of year	<u>\$ 290,625</u>	<u>896,301</u>	<u>1,186,926</u>	<u>1,173,934</u>

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Tuition and fees, net of scholarship aid of \$33,080	\$ 67,861	—	67,861
Room and board, net of scholarship aid of \$7,495	16,916	—	16,916
Net student fees	84,777	—	84,777
Investment return designated for operations	5,095	33,779	38,874
Other investment income	3,461	—	3,461
Private gifts and grants	7,267	1,713	8,980
Other sources	3,876	—	3,876
Net assets released from restrictions	32,777	(32,777)	—
Total operating revenues	137,253	2,715	139,968
Operating expenses:			
Instruction	58,372	—	58,372
Research	1,031	—	1,031
Academic support	19,732	—	19,732
Student services	20,105	—	20,105
Institutional support	18,674	—	18,674
Auxiliary enterprises	20,889	—	20,889
Total operating expenses	138,803	—	138,803
Increase (decrease) in net assets from operations	(1,550)	2,715	1,165
Nonoperating activities:			
Private gifts	443	4,118	4,561
Investment return, net of amounts designated for operations	8,348	40,396	48,744
Change in annuity and life income obligations	—	2,354	2,354
Net assets released from restriction and changes in restrictions	3,023	(3,023)	—
Other	(375)	—	(375)
Increase in net assets from nonoperating activities	11,439	43,845	55,284
Increase in net assets	9,889	46,560	56,449
Net assets, beginning of year	263,995	853,490	1,117,485
Net assets, end of year	\$ 273,884	900,050	1,173,934

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statements of Cash Flows

Years ended June 30, 2019 and 2018

(Dollars in thousands)

	2019	2018
Net cash flows from operating activities:		
Increase in net assets	\$ 12,992	56,449
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Contributions for endowment and facilities	(11,219)	(4,561)
Depreciation and amortization	18,728	18,202
Realized and unrealized gains on investments	(35,974)	(87,461)
Asset retirement obligation	—	50
Loss on disposal of plant and equipment	—	344
Changes in assets and liabilities that provide (use) cash:		
Student and other accounts receivable, net	(682)	(280)
Contributions receivable	(5,137)	2,115
Beneficial interest trusts	25	(15)
Other assets	238	(390)
Accounts payable and accrued liabilities	316	(1,332)
Deposits and advances	(926)	(819)
Accumulated postretirement benefit obligation	21	343
Annuity and life income obligations	781	1,267
Cash flows used in operating activities	(20,837)	(16,088)
Net cash from investing activities:		
Purchase of property, plant and equipment, net of change in construction costs payable	(16,549)	(14,570)
Purchases of investments	(516,681)	(502,960)
Proceeds from sales and maturities of investments	563,946	530,562
Change in deposits held by trustees of debt obligations	(46)	70,151
Change in short-term investments, net	(351)	(202)
Student loans, net	223	239
Cash flows provided by investing activities	30,542	83,220
Net cash from financing activities:		
Contributions for endowment and facilities	11,219	4,561
Payments on long-term debt and accrued interest	(19,125)	(72,857)
Payments to beneficiaries of split interest agreements	(1,893)	(2,010)
Other financing activities	—	(271)
Cash flows used in financing activities	(9,799)	(70,577)
Net decrease in cash and cash equivalents	(94)	(3,445)
Cash and cash equivalents:		
Beginning of year	29,004	32,449
End of year	\$ 28,910	29,004
Supplemental disclosure of noncash investing and financing activities:		
Change in construction related payables	\$ 250	(338)
Supplemental disclosure:		
Cash paid for interest	\$ 7,647	8,829

See accompanying notes to financial statements.

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

Originally founded in 1793 as the Hamilton-Oneida Academy, Hamilton College (the College) was chartered in 1812 and is the third oldest college in New York State. The College is a coeducational, independent, liberal arts college located in Clinton, New York with an enrollment of approximately 1,850 students representing 49 states and 49 countries. The College offers 43 majors in the liberal arts, science and mathematics and also offers pre-professional/cooperative programs in Business, Education, Engineering, Law, and Medicine and the opportunity to study abroad in numerous foreign destinations. The College's open curriculum gives students the freedom to shape their own liberal arts education within a research-and writing-intensive framework.

(b) Basis of Presentation

The financial statements of the College are prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the College and changes therein are classified and reported as follows:

Net Assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by the College's Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Net Assets with donor restrictions – Net assets subject to donor-imposed stipulations. These stipulations may require the net assets be maintained into perpetuity by the College, or they may expire with the passage of time or fulfilled by actions pursuant to the stipulations. Generally, where the donor has stipulated that the net assets be maintained into perpetuity, the donors permit the College to use all or part of the income earned on these assets for general or specific purposes.

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The statement of activities reflects a subtotal for the change in net assets from operations. This subtotal includes revenues the College received for operating purposes, investment return used for operations and all expenses. Nonoperating activity reflects all other activity, including, but not limited to, the investment return in excess of the amount appropriated under the Board of Trustees' approved spending formula and contributions for endowment and plant purposes.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

Significant items subject to such estimates and assumptions include the valuation of certain investments, the carrying amount of property, plant and equipment, valuation allowances for receivables, and the determination of the accumulated postretirement benefit obligation. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash equivalents representing operating funds that are short-term, highly liquid investments with an original maturity of three months or less are included in cash and cash equivalents unless they are part of short-term, medium-term or long-term investment funds. Cash and cash equivalents are reported at cost which approximates fair value. At June 30, 2019 and 2018, the College has cash and cash equivalents in banks exceeding the FDIC limit. The College places its cash and cash equivalents with high quality financial institutions, has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. Included in cash and cash equivalents at June 30, 2019 and 2018, are \$28,051 and \$27,304, respectively, of cash equivalents primarily representing interest bearing money market accounts.

(e) Short-Term and Medium-Term Investments

Short-term investments are recorded at fair value. The College periodically invests excess operating cash generally in select fixed income securities on a short-term basis.

Medium-term investments are also recorded at fair value and primarily represent proceeds from the Hamilton College Taxable Bonds, Series 2013. The investments are intended to be used by the College to refund all or a portion of certain existing bonds as further discussed in note 6, Long-Term Debt. During the year ended June 30, 2019, funds were used to advance refund \$15,485 of the College's Series 2002 Bonds.

(f) Investments

Investments are recorded at fair value. Net appreciation or depreciation on the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation on those investments, is recognized in the statement of activities. Realized gains and losses on the sale of investments are generally determined using the specific identification method on the trade date.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments are measured and reported at fair value. 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 and liabilities carried at fair value based on the valuation methodologies applied. Investments are classified and disclosed in one of the following categories based on the lowest level input that is significant to the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

- Level 2 inputs are quoted prices for markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 inputs are unobservable inputs that are used when little or no market data is available.

The fair values of debt and equity securities with readily determinable fair values are generally based on quoted market prices obtained from active markets. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year.

The College's interest in alternative investment funds, which include, private equity, real estate, energy, and hedge funds, are generally reported at the NAV reported by each of the investment managers as a practical expedient for determining the fair value of the investment. In cases where NAV is used as a practical expedient, these investments are redeemable either at NAV under the original terms of the subscription agreements and operations of the underlying funds, or at the discretion of the investment manager when the underlying investments are sold. 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 value of the funds and, consequently, the NAV of the College's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the NAV of the College's interest in the funds. Additionally, although certain investments may be sold in a secondary market transaction, 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 a fund in the secondary market, the sale could occur at an amount different than the reported NAV, and the difference could be material. As of June 30, 2019 and 2018, the College had no specific plans or intentions to sell investments at amounts different than NAV.

(g) Gifts and Private Grants

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or donor purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets released from restrictions in the same year the underlying gift is received and endowment income appropriated under the spending policy are reported as operating revenues within the statement of activities.

(h) Receivables

The College extends credit, primarily to students, in the form of loans and accounts receivable for educational expenses. Loans to students are expected to be collected over an average of 10 years with interest rates ranging from 1.4% to 3.6%. Loans to students are recorded at their current unpaid principal balance and associated interest income is accrued based on the principal amount outstanding and applicable interest rates.

Allowances for doubtful accounts are recorded and represent the amounts that, in the opinion of management of the College, are necessary to account for probable losses related to current

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

receivables. Allowances are determined based upon numerous considerations, including economic conditions, the specific composition of the receivable balances, as well as trends of delinquencies and write-offs. On a periodic basis, these factors are considered and the allowances for doubtful accounts are adjusted accordingly with a corresponding adjustment to the provision for allowance for doubtful loans and accounts receivable.

Student and other accounts receivable including loans are net of an allowance of \$395,000 as of June 30, 2019 and 2018.

(i) Deposits with Trustees of Debt Obligations

Deposits with trustees of debt obligations are recorded at fair value, and may be invested in cash, money market and short-term government securities according to the requirements established by the associated bond agreements. The fair value of deposits has been determined using quoted, unadjusted prices in active markets and would be considered to be Level 1 in the fair value hierarchy.

(j) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including interest on funds borrowed to finance construction, at the date of acquisition or fair value at the date of donation.

Depreciation is recorded on a straight-line basis over the estimated useful lives under the following guidelines: artwork (50 years), buildings (40 years), land improvements, HVAC, roofing and electrical (15 years), landscaping, carpeting and sprinkler systems (10 years), office furniture (7 years), vehicles, computer hardware and related equipment (5 years), and computer software (3 years).

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured based on a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(k) Annuity and Life Income Gifts

The College accepts certain gifts on the condition that periodic annuity or life income distributions are made to designated beneficiaries. Assets associated with these gifts are recorded at their fair value. The College recognizes contribution revenue in an amount equal to the difference between the fair value of the contributed asset and the net present value of the payment obligations, and classifies contribution revenue as an increase in net assets with donor restrictions, based on the donor stipulations. Liabilities associated with these gifts (the annuity or life income obligation) represent the present value of payments expected to be made to beneficiaries. Significant assumptions used to determine the annuity and life income obligations include the discount rates, which range from 1.2% to 10.6% determined in accordance with applicable regulations of the Internal Revenue Code, and mortality assumptions of the beneficiaries. Changes in annuity and life income obligations resulting from changes in actuarial assumptions and the accretion of the discount are recorded as increases or

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

decreases net assets with donor restrictions. During 2019 and 2018, the College received annuity and life income gifts of \$188 and \$222, respectively.

(l) Beneficial Interest Trusts

The College is the beneficiary of certain perpetual trusts held and administered by others which are estimated at the fair value of the College's share of the underlying assets. Inputs used to estimate the fair value of the College's beneficial interest in perpetual trusts are considered unobservable and would be considered to be Level 3 in the fair value hierarchy.

(m) Revenue Recognition

Tuition and fees and certain auxiliary enterprise revenues are earned over the academic year as services are provided. These amounts are reflected on the statement of activities net of any institutional student aid and recognized as services are provided. A student's institutional aid is allocated between tuition and fees and room and board based on the representative share of each portion to the total cost of attendance. Revenue from other exchange transactions, including from certain retail operations, is recognized when goods or services are provided to customers. Gifts and grants, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. Grants and contracts whose restrictions are met in the same fiscal year as their revenue is recognized are reported as grants and contracts without donor restrictions. Funds received in advance of services provided are included in deposits and advances. Deposits and advances generally represent tuition and fee revenue received for the subsequent fiscal year and are recognized in revenue in the subsequent period.

(n) Taxation

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income tax on related income.

The College recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The College believes it has taken no significant uncertain tax positions.

(o) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs associated with loss contingencies are expensed as incurred.

The College recognizes a liability for the fair value of conditional asset retirement obligations if their fair values can be reasonably estimated. This liability is initially recorded as an increase to the associated asset and depreciated over the remaining useful life of the asset.

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The College has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs are estimated using a per square foot estimate for each impacted location. As of June 30, 2019 and 2018, the College has recorded a liability, included within other long-term obligations in the accompanying statements of financial position, of \$1,803 and \$1,804, respectively, representing the estimated fair value of these conditional asset retirement obligations.

(p) Reclassifications

Certain reclassifications have been made to the 2018 information to conform with the 2019 presentation.

(q) Recent Accounting Pronouncements

In June of 2018, the College adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The primary changes, which affect most not-for-profit financial statements, include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources.

A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2017 is as follows:

	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total
As previously presented:			
Unrestricted	\$ 266,452	—	266,452
Temporarily restricted	—	585,823	585,823
Permanently restricted	—	265,210	265,210
Net assets as previously presented	266,452	851,033	1,117,485
Reclassification to adopt ASU 2016-14:			
Underwater endowments	18	(18)	—
Contributions for long-lived assets	(2,475)	2,475	—
Net assets as reclassified	\$ 263,995	853,490	1,117,485

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2018 is as follows:

	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total
As previously presented:			
Unrestricted	\$ 276,348	—	276,348
Temporarily restricted	—	627,220	627,220
Permanently restricted	—	270,366	270,366
Net assets as previously presented	276,348	897,586	1,173,934
Reclassification to adopt ASU 2016-14:			
Underwater endowments	11	(11)	—
Contributions for long-lived assets	(2,475)	2,475	—
Net assets as reclassified	\$ 273,884	900,050	1,173,934

The adoption of ASU 2016-14 also requires adjustment to the statement of activities for the year ended June 30, 2018, including adjusting amounts previously recorded as investment return, net of amounts designated for operations for the impact of the change in underwater endowments noted above as well as an adjustment to net assets released from restriction and changes in restrictions for the change in timing of the recognition of releases from restrictions associated with donor funded additions to property, plant and equipment.

ASU 2014-09, *Revenue from Contracts with Customers*, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. ASU 2014-09 establishes a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaces most existing revenue recognition guidance in GAAP. The ASU became effective for the College for the year ended June 30, 2019. The College's retrospective adoption of the ASU did not materially change the timing or amount of revenue recognized by the College. However, the ASU requires that tuition and fees and room and board revenues be presented in the statement of activities at the transaction price, i.e., net of any institutional student aid. Previously, such revenues were presented gross, i.e., at published rates, followed by a reduction for institutional student aid. Accordingly, the College's 2018 statement of activities has been revised to conform to the 2019 presentation.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. This ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for the

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the College for the year ended June 30, 2019. The College's adoption of the ASU on a modified prospective basis did not have a material effect on its financial statements.

(2) Liquidity and Availability of Financial Resources

At June 30, 2019 and June 30, 2018, financial assets and liquidity resources available within one year for general expenditures, including operating expenses, scheduled principal payments on debt, and capital construction costs not financed by debt, are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 28,910	29,004
Student and other accounts receivable including loans, net	2,013	1,014
Short-term investments	17,469	17,118
Board approved endowment appropriation	<u>44,813</u>	<u>41,837</u>
Total financial assets available within one year	<u>\$ 93,205</u>	<u>88,973</u>

The College's working capital and cash flows have seasonal variations during the year attributable to tuition billing and a concentration of contributions received at calendar and fiscal year end. To manage liquidity, the College also has a \$50,000 line of credit. In addition, the quasi endowment of \$157,795 and \$157,836 at June 30, 2019 and 2018, respectively, can be made available for general expenditure with approval from the College's Board of Trustees, subject to investment liquidity provisions. The College also has deposits with trustees of \$4,760 and \$4,714 at June 30, 2019 and 2018, respectively, which is intended for debt service payments in the subsequent year and medium-term investments of \$17,884 and 32,619 at June 30, 2019 and 2018, respectively, which is intended to be used by the College to refund all or a portion of certain existing long-term debt, subject to investment liquidity positions.

(3) Investments

The investment objective of the College is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The College's investment strategy incorporates a diversified asset allocation approach with exposure to domestic and international equity, fixed income, real estate, commodities, hedge funds, and private equity markets based on targets defined by the Investment Committee of the College's Board of Trustees. The majority of the College's investments are managed in a pooled fund that consists primarily of endowment assets. Other investments are managed separately from the pool. These investments consist of various bond and equity portfolios associated with planned gifts. In addition, a portion of the proceeds of the Series 2013 taxable bond issue are invested in fixed income securities, principally commingled bank loan funds, state lottery commission receivables, a real estate limited partnership and a fund that structures transactions to provide capital relief to European banks.

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(a) Fair Value

The College's investments at June 30, 2019, which include endowment assets of \$969,362, planned gifts of \$47,929, medium-term investments of \$17,884, and short-term investments of \$17,469, are summarized in the following table by their fair value hierarchy classification. Certain investments that are measured at fair value using NAV as a practical expedient for fair value have been categorized separately.

	June 30, 2019	Level 1	Level 2	Level 3	NAV
Investments:					
Cash and cash equivalents	\$ 52,914	52,914	—	—	—
Fixed income securities	33,930	14,636	19,294	—	—
Equity securities:					
U.S.	264,384	157,722	—	—	106,662
International	226,821	55,860	—	—	170,961
Hedge funds:					
Absolute return (a)	126,526	—	—	—	126,526
Special situations (b)	149,053	—	—	—	149,053
Private equity (c):					
Buy-out	52,733	—	—	—	52,733
Venture capital	56,330	—	—	—	56,330
Real estate (d)	28,777	—	—	7,335	21,442
Energy (e)	23,638	—	—	23,638	—
Other	2,185	—	2,185	—	—
	<u>1,017,291</u>	<u>281,132</u>	<u>21,479</u>	<u>30,973</u>	<u>683,707</u>
Medium-term investments:					
Cash and cash equivalents	742	742	—	—	—
Fixed income securities (f)	7,549	710	—	—	6,839
Hedge funds:					
Other (g)	8,784	887	—	—	7,897
Real estate (d)	809	—	—	—	809
	<u>17,884</u>	<u>2,339</u>	<u>—</u>	<u>—</u>	<u>15,545</u>
Short-term investments:					
Fixed income securities	17,469	—	17,469	—	—
	<u>\$ 1,052,644</u>	<u>283,471</u>	<u>38,948</u>	<u>30,973</u>	<u>699,252</u>

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The College's investments at June 30, 2018, which include endowment assets of \$964,170, planned gifts of \$48,671, medium-term investments of \$32,619, and short-term investments of \$17,118 are summarized in the following table by their fair value hierarchy classification. Certain investments that are measured at fair value using NAV as a practical expedient for fair value have been categorized separately.

	<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Investments:					
Cash and cash equivalents	\$ 22,074	22,074	—	—	—
Fixed income securities	63,745	41,168	22,577	—	—
Equity securities:					
U.S.	296,206	190,066	—	—	106,140
International	291,764	108,102	—	—	183,662
Hedge funds:					
Absolute return (a)	99,653	—	—	—	99,653
Special situations (b)	104,673	—	—	—	104,673
Private equity (c):					
Buy-out	31,354	—	—	—	31,354
Venture capital	48,122	—	—	—	48,122
Real estate (d)	25,057	—	—	4,222	20,835
Energy (e)	28,028	—	—	27,050	978
Other	2,165	—	2,165	—	—
	<u>1,012,841</u>	<u>361,410</u>	<u>24,742</u>	<u>31,272</u>	<u>595,417</u>
Medium-term investments:					
Cash and cash equivalents	2,131	2,131	—	—	—
Fixed income securities (f)	15,473	8,222	—	—	7,251
Hedge funds:					
Other (g)	11,309	1,709	—	—	9,600
Real estate (d)	3,706	—	—	—	3,706
	<u>32,619</u>	<u>12,062</u>	<u>—</u>	<u>—</u>	<u>20,557</u>
Short-term investments:					
Fixed income securities	17,118	—	17,118	—	—
	<u>\$ 1,062,578</u>	<u>373,472</u>	<u>41,860</u>	<u>31,272</u>	<u>615,974</u>

(a) This category includes funds that invest in global and U.S. focused long/short equity, relative value fixed income as well as multi-strategy funds. It also includes one hedge fund in the liquidation process at June 30, 2019.

(b) This category includes a mix of special situation funds, including one that focuses on investments in event driven distressed corporate credit restructurings and other deep value and special situations in middle market companies, an opportunistic credit fund that invests across the capital structure, a fund that structures Euro denominated transactions to reduce the regulatory capital

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

burden for prime European banks under Basel II and Basel III (Euro exposure is hedged back to U.S. dollars). This category also includes a fund that invests across the life sciences, biotechnology, and pharmaceutical industries, another fund with a long-only focus on U.S. small and micro cap companies, a growth oriented fund that invest in both public and private companies across industrial and geographic sectors, and lastly, an Asian focused fund investing in Japanese, South Korean, and Hong Kong equities.

- (c) This category includes investments in several buyout, venture capital, and distressed securities limited partnerships that in turn invest in companies within the technology, transportation, service, broadcast, manufacturing, retail, and health care sectors, as well as distressed debt, leveraged buyouts, and secondary private equity and venture capital market transactions. Investments cannot be redeemed upon request. Instead, distributions are received at the election of the general partner as the underlying investments are monetized, or as in-kind distributions of shares in the underlying investments. It is estimated that the underlying assets of each fund will be distributed over a 3-15 year period from the effective date of the fund.
- (d) This category includes real estate limited partnerships that invest in land and several that invest in both U.S. and international commercial real estate, including secondary market transactions in other real estate limited partnerships/funds. Investments cannot be redeemed upon request. Instead, distributions are received at the election of the general partner as the underlying investments are monetized. Based upon the terms of the funds, it is estimated that the underlying assets of each fund will be distributed over a 3-15 year period from the effective date of the fund.
- (e) This category includes limited partnerships that invest in oil and gas, and equity investments in energy and energy-related companies. Also included within this category are direct and indirect investments in natural gas and oil royalty interests, which utilize significant unobservable inputs in determining the estimated fair value. These funds total approximately \$18,466 and \$19,369 as of June 30, 2019 and 2018, respectively, and utilize the income approach to valuation which calculates the net present value of total estimated future distributions, adjusted for an 8% discount. Investments cannot be redeemed upon request. Instead, distributions are received as cash as the underlying investments are monetized, or as in-kind distribution of shares in the underlying investments at the election of the general partner. Based upon the terms of the funds, it is estimated that the underlying assets of each fund will be distributed over a 3-20 year period from the effective date of the fund.
- (f) Included in this category are a commingled fund that invest primarily in bank loans, and an LLC that invests in state lottery prize receivables.
- (g) This category includes a fund that structures transactions to help European banks meet their capital requirements under Basel II and Basel III. The Euro exposure is hedged back to U.S. dollars.

There were no transfers between Level 1 and Level 2 investments during the fiscal years ended June 30, 2019 and 2018.

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

Changes to reported investments measured at fair value using unobservable (Level 3) inputs during the years ended June 30, 2019 and 2018 are as follows:

	2019			2018		
	Energy	Real Estate	Total	Energy	Real Estate	Total
Fair value at beginning of year	\$ 27,050	4,222	31,272	29,425	3,780	33,205
Purchases	—	3,287	3,287	—	452	452
Sales and settlements	(1,033)	(338)	(1,371)	(503)	(162)	(665)
Unrealized gains/(losses), net	(2,379)	164	(2,215)	(1,872)	152	(1,720)
Fair value at end of year	\$ 23,638	7,335	30,973	27,050	4,222	31,272

(b) Liquidity

The limitations and restrictions on the College's ability to redeem or sell investments vary by investment and range from none for publicly traded securities, to required notice periods (generally 30 to 180 days after initial lock-up periods) for certain hedge funds, to dependency on the disposition of portfolio positions and return of capital by the investment manager for private equity, venture capital, energy, and real estate limited partnership interests. Investments with daily liquidity generally do not require any notice prior to withdrawal. Based upon the terms and conditions in effect at June 30, 2019, expected liquidity for the College's investments can be classified as follows:

	Daily	Weekly	Monthly	Quarterly	Semi-annual	Annual	< 3 years	Illiquid	Total
Cash and cash equivalents	\$ 53,656	—	—	—	—	—	—	—	53,656
Fixed income securities	52,109	—	—	—	—	—	—	6,839	58,948
Equity securities	94,036	65,234	142,125	131,849	17,275	40,686	—	—	491,205
Hedge funds	770	—	—	99,546	18,176	59,464	75,717	30,690	284,363
Private equity	—	—	—	—	—	—	—	109,063	109,063
Real estate	—	—	—	—	—	—	—	29,586	29,586
Energy	—	—	—	—	—	—	—	23,638	23,638
Other	—	—	—	—	—	—	—	2,185	2,185
	\$ 200,571	65,234	142,125	231,395	35,451	100,150	75,717	202,001	1,052,644

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The “illiquid” category is related to private equity, real estate, and energy limited partnership investments, absolute return hedge funds and special situations funds, where the College has no liquidity until the investments are sold and the monies are distributed by the fund manager. The table below summarizes the value of these investments by their stated terms assuming the partnerships are not extended.

	<u>Amount</u>
Fiscal year:	
2020	\$ 49,111
2021	17,140
2022	16,611
2023	7,324
2024	10,050
Thereafter	<u>101,765</u>
	<u>\$ 202,001</u>

(c) Commitments

The College has outstanding commitments to private equity, energy, real estate, hedge, and special situation investments that have not yet been drawn down by these funds. Typically, committed capital is drawn down and invested over a several year period. Draw downs on outstanding commitments are funded by distributions from the private equity, energy and real estate portfolios, cash, and other liquid investments. The College has the following outstanding commitments based on the expiration dates of the funds’ commitment periods, at June 30, 2019:

	<u>Amount</u>
Fiscal year:	
2020	\$ 66,600
2021	15,462
2022	17,966
2023	6,948
2024	63,097
2025	<u>18,835</u>
	<u>\$ 188,908</u>

(d) Securities Lending

The College has determined that it will exit its securities lending program in a manner that will limit its exposure to any significant financial loss. Collateral required under the program is a minimum of 102% of the fair value of securities lent and is adjusted on a daily basis to reflect changes in the market value of the securities lent. The College receives lending fees and continues to earn interest and dividends

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

from the securities on loan. The College's collateral is generally invested in short-term, asset backed securities. In the case of a borrower's failure to deliver securities for any reason within the time specified by the applicable securities loan agreement, the College has rights to this collateral under applicable law. The security lending agent indemnifies the College against losses arising from the failure of a borrower to return securities. As of June 30, 2019 and 2018, the College had loaned certain securities, which are included in the endowment investments, with a fair value of \$1,920 and \$2,138, respectively, to several financial institutions that have provided collateral of \$2,005 and \$2,194 as of June 30, 2019 and 2018, respectively, for the loaned securities.

(e) *Investment Return*

The following schedule summarizes total investment return and its classification in the statements of activities for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment income, net	\$ 2,585	3,618
Net realized and unrealized gains	<u>35,974</u>	<u>87,461</u>
Total return on investments	38,559	91,079
Investment return designated for current operations (spending policy distributions)	(40,536)	(38,874)
Short and medium-term investment income	<u>(2,917)</u>	<u>(3,461)</u>
Investment return, net of amounts designated for current operations	<u>\$ (4,894)</u>	<u>48,744</u>

Investment income is presented net of investment management and custodial fees of \$6,869 and \$6,052 for the years ended June 30, 2019 and 2018, respectively.

(4) **Endowment**

The College's endowment and similar funds consist of gifts restricted by donors, funds designated by management and the Board of Trustees for long-term support of the College's activities, and the accumulated investment return on these gifts and designated assets. Accumulated investment return consists of total endowment net investment return that has not been appropriated by the Board of Trustees for expenditures to support the operating and nonoperating activities of the College. Generally, only a portion of accumulated net investment return is made available for spending each year in accordance with an endowment utilization policy approved by the Board of Trustees and in accordance with the laws of the State of New York.

Certain donor restricted endowment funds allow for the expenditure of principal. College designated endowment funds are classified as net assets without restrictions that may be redesignated for authorized expenditures.

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The College follows the New York Uniform Prudent Management of Institutional Funds Act (NYPMIFA) in the management of its endowment. The College has interpreted NYPMIFA as allowing the College to spend or accumulate the amount of an endowment fund that the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The College classifies as net assets with donor restrictions the historical value of donor-restricted endowment funds, which includes (a) the original values of gifts donated to permanent endowments, (b) the original values of subsequent gifts to permanent endowments, and (c) accumulations to permanent endowments made in accordance with the directions of the applicable donors' gift instruments at the times the accumulations are added to the funds. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift.

In accordance with NYPMIFA, the investment committee considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the College and the endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the College
- Where appropriate and where circumstances would otherwise warrant, alternatives to expenditure of an endowment fund, giving due consideration to the effect that such alternatives may have on the College
- The investment policies of the College

The following is a summary of the College's endowment net asset composition by type of fund as of June 30, 2019 and 2018:

	2019		
	Without donor restrictions	With donor restrictions	Total
Donor restricted endowment funds	\$ —	811,567	811,567
Board-designated for general purpose	157,795	—	157,795
	\$ 157,795	811,567	969,362

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

	2018		Total
	Without donor restrictions	With donor restrictions	
Donor restricted endowment funds	\$ —	806,334	806,334
Board-designated for general purpose	157,836	—	157,836
	<u>\$ 157,836</u>	<u>806,334</u>	<u>964,170</u>

The net assets without donor restrictions amounts at June 30, 2019 and 2018 represent Board-designated funds (quasi-endowment funds). Accumulated investment earnings on net assets with donor restricted endowment funds are reflected as net assets with donor restrictions.

The following is a summary of the components of the return on the endowment pool and changes in endowment net assets for the years ended June 30, 2019 and 2018:

	2019		2018	
	Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Endowment net assets, beginning of year	\$ 157,836	806,334	146,393	759,366
Investment return	4,426	30,496	13,450	74,168
Private gifts	101	7,508	65	3,987
Released from restriction and changed restrictions	816	2,381	3,023	2,592
Appropriation of endowment assets for spending	<u>(5,384)</u>	<u>(35,152)</u>	<u>(5,095)</u>	<u>(33,779)</u>
Endowment net assets, end of year	<u>\$ 157,795</u>	<u>811,567</u>	<u>157,836</u>	<u>806,334</u>

(a) Funds with Deficiencies

From time to time, the fair values of assets associated with individual donor restricted endowment funds may fall below the level that the donor or applicable law requires to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets without restrictions and were \$2 and \$11 as of June 30, 2019 and 2018, respectively. These deficits generally resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments. Endowment earnings shortfalls are covered by investments held in net assets without donor restrictions.

(b) Spending Policy

The College uses a spending policy, known as the “mixed rule”. This policy uses 70% of the prior year’s spending adjusted for inflation, plus 5% of the average of the prior four quarters endowment value weighted at 30%. Actual amounts withdrawn for spending, as a percentage of the most recent

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

twelve quarter average market value of the endowment, was 4.4% for each of the years ended June 30, 2019 and 2018, respectively.

(c) Return Objectives and Risk Parameters

The overall financial objective for the endowment is to achieve a total return that preserves the real value of the principal of the endowment and to augment as much as possible, the real purchasing power of the endowment while exercising due care and fiduciary responsibility, and avoiding excessive risk. It is expected the endowment will need to earn a 6% real annualized return over the long term to meet this goal and provide adequate support for operations while protecting against inflation. The Investment Committee of the Board of Trustees has determined that a well-diversified mix of assets offers the best opportunity to achieve this level of return with an appropriate level of risk. To that end, the securities of any one issuer, except for those of the U.S. government, shall not exceed 5% of the total market value of the endowment and no external investment manager shall manage more than 15% of the market value of the endowment.

(5) Contributions Receivable

Contributions receivable are recorded at their estimated net present value assuming a discount rate in effect at the time the pledge was received, ranging from 1.16% to 5.27% at June 30, 2019 and 2018. Contributions estimated to be collected at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 2,781	5,713
One to five years	<u>15,212</u>	<u>6,200</u>
	17,993	11,913
Less:		
Present value discount	(1,485)	(542)
Reserve for uncollectible receivables	<u>(800)</u>	<u>(800)</u>
	<u>\$ 15,708</u>	<u>10,571</u>

HAMILTON COLLEGE
Notes to Financial Statements
June 30, 2019 and 2018
(Dollars in thousands)

(6) Property, Plant, and Equipment

Property, plant, and equipment consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 38,560	34,571
Buildings	387,633	372,677
Furniture and equipment	<u>86,275</u>	<u>80,768</u>
	512,468	488,016
Less accumulated depreciation	<u>(262,943)</u>	<u>(244,423)</u>
	249,525	243,593
Construction projects in process	<u>2,282</u>	<u>9,935</u>
	<u>\$ 251,807</u>	<u>253,528</u>

Depreciation expense was \$18,677 and \$17,970 in 2019 and 2018, respectively. The College has estimated it will incur approximately \$4,669 of additional costs to complete the construction projects in process as of June 30, 2019, which include the Health and Counseling Center, athletics facilities, and various other renewal projects.

HAMILTON COLLEGE
Notes to Financial Statements
June 30, 2019 and 2018
(Dollars in thousands)

(7) Long-Term Debt

Long-term debt consists of the following at June 30, 2019 and 2018:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>Original issue</u>	<u>Outstanding at June 30, 2019</u>	<u>Outstanding at June 30, 2018</u>
Oneida County Industrial Development Agency Civic Facility (a):					
Revenue Bonds Series 2002 (b)	09/15/2032	5.2 %	\$ 60,000	19,090	36,540
Revenue Bonds Series 2013 (c)	07/01/2044	2.0% – 5.0%	23,010	21,000	21,435
Dormitory Authority of the State of New York Revenue Bonds, Series 2010 (d)	07/01/2021	3.0% – 5.0%	12,700	4,095	5,335
Hamilton College Taxable Bonds Series 2013 (e)	07/01/2113	4.75 %	103,000	<u>103,000</u>	<u>103,000</u>
				147,185	166,310
Less unamortized bond issuance costs				(2,073)	(3,323)
Less net discount on bonds payable				<u>(786)</u>	<u>(515)</u>
				<u>\$ 144,326</u>	<u>162,472</u>

- (a) Civic Facility Revenue Bonds are collateralized by the financed property and equipment.
- (b) The College refinanced the Series 2002 bonds in September 2008. The bonds were issued at a premium of \$3,172, at a fixed rate of 5.2%. \$15,485 of these bonds were advanced refunded during the fiscal year ended June 30, 2019, resulting in a loss on defeasance of \$317, which is included in other non-operating activities on the statement of activities.
- (c) The College issued \$23,010 of Civic Facility Revenue Bonds in July 2013 at a premium of \$877, with interest rates varying from 2% – 5%.
- (d) Dormitory Authority Revenue Bonds are general obligations of the College and are supported by pledges of tuition or net revenues from operation of the financed properties. The Series 2010 bonds were issued at a premium of \$1,285 and interest rates varying from 3 – 5%.
- (e) The College issued \$103,000 of Hamilton College Taxable Bonds, Series 2013, in April 2013. The bonds were issued at a discount of \$2,627, at a fixed rate of 4.75%. A portion of the proceeds was used on July 1, 2017 to refund all of the Series 2007 bonds.

Interest expense was \$7,115 and \$7,916 for the years ended June 30, 2019 and 2018, respectively.

HAMILTON COLLEGE
Notes to Financial Statements
June 30, 2019 and 2018
(Dollars in thousands)

The scheduled principal payments for the next five years and thereafter on long-term debt are reflected in the following table:

2020	\$	1,755
2021		1,850
2022		4,090
2023		2,745
2024		2,835
Thereafter		133,910
	\$	147,185

Line of Credit

On July 16, 2018, the College established a revolving, unsecured line of credit in the amount of \$50,000 for working capital and other capital needs. The line of credit has a two year term, interest on the outstanding balance of advanced funds is equal to the current 30 day LIBOR plus 75 basis points and no annual fee is charged. No funds have yet been drawn on this and the outstanding balance at June 30, 2019 was \$0.

During the year ended June 30, 2018 the College had an unsecured line of credit in the amount of \$10,000 to support the College's working capital needs. As of June 30, 2018, no funds had been advanced. This line of credit expired on July 16, 2018 when the new line of credit was established.

(8) Employee and Pension Benefits

(a) Postretirement Health Care Benefits

The College provides health insurance benefits for eligible employees upon retirement and recognizes the overfunded or underfunded status of a defined benefit post retirement plan (the Plan) as an asset or liability and to recognize changes in that funded status in the year they occur. The College uses a June 30 measurement date for the Plan. The Plan's funded status, amounts recognized, significant assumptions used, contributions made, and benefits paid included in the College's financial statements as of June 30, 2019 and 2018 are as follows:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 2,530	2,187
Service cost	113	124
Interest cost	99	92
Actuarial (gain) loss	(272)	163
Benefits paid	(118)	(202)
Participant contributions	157	166
Benefit obligation at end of year	\$ 2,509	2,530

HAMILTON COLLEGE
Notes to Financial Statements
June 30, 2019 and 2018
(Dollars in thousands)

	2019	2018
Change in plan assets:		
Fair value of assets, beginning of year	\$ —	—
Employer contribution	(39)	36
Participant contributions	157	166
Benefits paid	(118)	(202)
Fair value of assets, end of year	\$ —	—
Amount recognized in the statement of financial position:		
Funded status	\$ (2,509)	(2,530)

Amounts recorded in net assets without donor restrictions as of June 30, 2019 and 2018, not yet amortized as components of net periodic benefit costs are as follows:

	2019	2018
Unamortized prior service costs	\$ 833	1,103
Unamortized actuarial gain	(4,015)	(4,094)
Amount recognized in net assets without donor restrictions	\$ (3,182)	(2,991)

The amortization of the above items expected to be recognized in net periodic costs for the year ending June 30, 2020 is a gain of \$348.

A summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2019 and 2018, is as follows:

	2019	2018
Components of net periodic cost (benefit):		
Service cost	\$ 113	124
Interest cost	99	92
Amortization of unrecognized actuarial gain	(350)	(354)
Amortization of unrecognized prior service cost	270	270
Net periodic postretirement cost	\$ 132	132

HAMILTON COLLEGE
Notes to Financial Statements
June 30, 2019 and 2018
(Dollars in thousands)

(i) *Assumptions*

A summary of the weighted average assumptions used to determine the benefit obligation at June 30, 2019 and 2018 is presented below:

	<u>2019</u>	<u>2018</u>
Discount rate	3.23 %	4.00 %
Mortality	RPH-2014	RPH-2014

A summary of the weighted average assumptions used to determine the net periodic postretirement benefit cost for the years ended June 30, 2019 and 2018 is presented below:

	<u>2019</u>	<u>2018</u>
Discount rate	4.00 %	3.55 %

A summary of the assumed healthcare cost trend rates at June 30, 2019 is presented below:

	<u>Pre-65 Medical trend rates</u>	<u>Post-65 Medical trend rates</u>	<u>Prescription drugs trend rates</u>
Healthcare cost trend rate for next year			
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.78 %	3.78 %	3.78 %
Year that the rate reaches the ultimate trend rate	2075	2075	2075

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. From a sensitivity perspective, a one percentage point change in the assumed health care cost trend rates would have the following effects:

	<u>2019</u>	
	<u>One percentage point</u>	
	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost components	\$ 43	(36)
Effect on postretirement benefit obligation	298	(333)

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The following benefit payments, which reflect expected future service for each fiscal year, are expected to be paid:

2020	\$	155
2021		183
2022		145
2023		138
2024		128
2025–2029		796

(b) Pension Benefits

The College administers a defined contribution retirement plan for eligible employees. Teachers Insurance Annuity Association of America (TIAA), and Fidelity Investments Inc. are the recordkeepers and custodians of the plan. Total pension expense charged to operations relating to these plans for the years ended June 30, 2019 and 2018 amounted to \$5,073 and \$4,949, respectively.

(9) Net Assets

Net assets consist of the following at June 30, 2019 and 2018:

	2019		2018	
	Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Undesignated	\$ 132,830	—	116,048	—
Capital projects and reserves	—	2,035	—	20,278
Restricted for operations	—	21,419	—	18,390
Planned giving arrangements	—	35,350	—	34,634
Loan funds	—	10,222	—	9,843
Contributions receivable	—	15,708	—	10,571
Endowments:				
Financial Aid	52,483	343,703	52,708	337,327
Professorships	17,132	180,139	17,241	181,191
Other	88,180	287,725	87,887	287,816
Total	\$ 290,625	896,301	273,884	900,050

HAMILTON COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(10) Expenses

The College's primary program service is academic instruction. Expenses reported as student services, 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 year ended June 30, 2019 and June 30, 2018:

	<u>Salaries</u>	<u>Benefits</u>	<u>Depreciation</u>	<u>Interest</u>	<u>Utilities</u>	<u>Contracted services, supplies, and other</u>	<u>Total</u>
June 30, 2019:							
Instruction	\$ 31,482	8,574	7,192	4,582	1,070	6,183	59,083
Research	582	—	—	—	—	831	1,413
Academic support	9,039	2,462	1,516	218	224	6,699	20,158
Student services	8,184	2,229	2,650	490	387	7,307	21,247
Institutional support	8,427	2,295	478	326	129	8,195	19,850
Auxiliary	2,760	752	6,841	1,499	1,552	7,468	20,872
Total	<u>\$ 60,474</u>	<u>16,312</u>	<u>18,677</u>	<u>7,115</u>	<u>3,362</u>	<u>36,683</u>	<u>142,623</u>

	<u>Salaries</u>	<u>Benefits</u>	<u>Depreciation</u>	<u>Interest</u>	<u>Utilities</u>	<u>Contracted services, supplies, and other</u>	<u>Total</u>
June 30, 2018:							
Instruction	\$ 30,657	8,999	6,941	4,918	978	5,879	58,372
Research	369	—	—	—	—	662	1,031
Academic support	8,592	2,522	1,464	250	205	6,699	19,732
Student services	7,580	2,225	2,558	521	355	6,866	20,105
Institutional support	7,499	2,201	461	341	102	8,070	18,674
Auxiliary	2,744	805	6,603	1,615	1,455	7,667	20,889
Total	<u>\$ 57,441</u>	<u>16,752</u>	<u>18,027</u>	<u>7,645</u>	<u>3,095</u>	<u>35,843</u>	<u>138,803</u>

Operation and maintenance of plant and depreciation are allocated among the functional categories based on the percentage of square footage a functional department occupies as compared to the total square footage of each building. Interest expense is allocated out to the functions within the building for which the debt was issued, based on the functional activities proportional occupancy of the building.

Included in institutional support are \$5,907 and \$5,250 of fundraising expenses for the years ended June 30, 2019 and 2018, respectively.

(11) Subsequent Events

Management has evaluated events subsequent to June 30, 2019, for potential recognition or disclosure in the financial statements through through October 24, 2019, the date on which the financial statements were available to be issued.