Financial Statements with Report of
Independent Certified Public Accountants

# MERRIMACK COLLEGE

June 30, 2016 and 2015

# MERRIMACK COLLEGE

## TABLE OF CONTENTS

Grant Thornton LLP
75 State Street, 13th Floor
Boston, MA 02109

T 617.723.7900
F 617.723.3640
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
**Merrimack College**

We have audited the accompanying financial statements of Merrimack College (the "College"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, cash flows for the years then ended, and the related notes to the financial statements.

### Management's responsibility for the financial statements

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Merrimack College as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
September 22, 2016

# MERRIMACK COLLEGE
## Statements of Financial Position
### June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 19,147,693 | $ 19,988,448 |
| Contributions receivable, net (Note 3) | 2,197,219 | 2,588,595 |
| Accounts and loans receivable, net (Note 6) | 3,838,748 | 2,669,544 |
| Other assets | 1,851,990 | 2,199,744 |
| Investments (Notes 4 and 5) | 50,568,448 | 51,873,862 |
| Deposits with bond trustees (Note 4) | 14,106,408 | 22,556,003 |
| Land, buildings, and equipment, net (Note 7) | 108,155,330 | 101,967,897 |
| Total assets | $ 199,865,836 | $ 203,844,093 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | $ 11,248,973 | $ 16,376,507 |
| Student deposits and deferred revenue | 7,862,300 | 7,790,379 |
| Debt (Note 8) | 86,107,645 | 87,615,700 |
| Refundable U.S. government grants - for student loans | 1,387,545 | 3,796,888 |
| Total liabilities | 106,606,463 | 115,579,474 |
| NET ASSETS (Note 5) | | |
| Unrestricted | 50,708,346 | 45,618,209 |
| Temporarily restricted (Note 9) | 18,281,287 | 19,012,574 |
| Permanently restricted (Note 10) | 24,269,740 | 23,633,836 |
| Total net assets | 93,259,373 | 88,264,619 |
| Total liabilities and net assets | $ 199,865,836 | $ 203,844,093 |

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

# MERRIMACK COLLEGE
## Statement of Activities
### Year ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| OPERATING | | | | |
| REVENUE | | | | |
| Tuition and fees | $ 120,794,212 | $ - | $ - | $ 120,794,212 |
| Less scholarship aid to students | (51,570,905) | - | - | (51,570,905) |
| Tuition and fees, net | 69,223,307 | - | - | 69,223,307 |
| Grant revenues | 1,465,745 | - | - | 1,465,745 |
| Contributions | 340,360 | 2,493,543 | - | 2,833,903 |
| Endowment income (Notes 4 and 5) | 293,563 | 1,568,665 | - | 1,862,228 |
| Auxiliary enterprises | 30,895,725 | - | - | 30,895,725 |
| Other revenue | 2,033,624 | - | - | 2,033,624 |
| Total revenues | 104,252,324 | 4,062,208 | - | 108,314,532 |
| Net assets released from restrictions (Note 11) | 2,620,370 | (2,620,370) | - | - |
| Total revenues and net assets released from restrictions | 106,872,694 | 1,441,838 | - | 108,314,532 |
| EXPENSES | | | | |
| Instruction | 33,414,201 | - | - | 33,414,201 |
| Student services | 23,639,688 | - | - | 23,639,688 |
| Academic support | 7,823,238 | - | - | 7,823,238 |
| Institutional support | 17,325,521 | - | - | 17,325,521 |
| Auxiliary enterprises | 18,973,216 | - | - | 18,973,216 |
| Total expenses | 101,175,864 | - | - | 101,175,864 |
| Change in net assets from operations | 5,696,830 | 1,441,838 | - | 7,138,668 |
| NONOPERATING | | | | |
| Investment depreciation (Notes 4 and 5) | (919,531) | (885,964) | - | (1,805,495) |
| Contributions | - | 662,005 | 638,451 | 1,300,456 |
| Derecognition of pledge | - | (1,621,186) | - | (1,621,186) |
| Funds released from restrictions for buildings (Note 11) | 322,360 | (322,360) | - | - |
| Change in value of split interest obligations | (9,522) | (5,620) | (2,547) | (17,689) |
| Change in net assets from nonoperating activities | (606,693) | (2,173,125) | 635,904 | (2,143,914) |
| Change in net assets | 5,090,137 | (731,287) | 635,904 | 4,994,754 |
| Net assets, beginning of year | 45,618,209 | 19,012,574 | 23,633,836 | 88,264,619 |
| Net assets, end of year | $ 50,708,346 | $ 18,281,287 | $ 24,269,740 | $ 93,259,373 |

*The accompanying notes are an integral part of this financial statement.*

# MERRIMACK COLLEGE
## Statement of Activities
### Year ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| OPERATING | | | | |
| REVENUE | | | | |
| Tuition and fees | $ 108,341,273 | $ - | $ - | $ 108,341,273 |
| Less scholarship aid to students | (45,534,591) | - | - | (45,534,591) |
| Tuition and fees, net | 62,806,682 | - | - | 62,806,682 |
| Grant revenues | 1,247,159 | - | - | 1,247,159 |
| Contributions | 465,757 | 1,969,325 | - | 2,435,082 |
| Endowment income (Notes 4 and 5) | 477,525 | 1,384,703 | - | 1,862,228 |
| Auxiliary enterprises | 28,678,450 | - | - | 28,678,450 |
| Other revenue | 1,876,858 | - | - | 1,876,858 |
| Total revenues | 95,552,431 | 3,354,028 | - | 98,906,459 |
| Net assets released from restrictions (Note 11) | 2,460,126 | (2,460,126) | - | - |
| Total revenues and net assets released from restrictions | 98,012,557 | 893,902 | - | 98,906,459 |
| EXPENSES | | | | |
| Instruction | 30,780,437 | - | - | 30,780,437 |
| Student services | 20,610,182 | - | - | 20,610,182 |
| Academic support | 7,049,066 | - | - | 7,049,066 |
| Institutional support | 16,339,419 | - | - | 16,339,419 |
| Auxiliary enterprises | 16,663,446 | - | - | 16,663,446 |
| Total expenses | 91,442,550 | - | - | 91,442,550 |
| Change in net assets from operations | 6,570,007 | 893,902 | - | 7,463,909 |
| NONOPERATING | | | | |
| Investment appreciation (Notes 4 and 5) | 11,970 | (5,061) | 31,212 | 38,121 |
| Other nonoperating | 2,738 | 60 | - | 2,798 |
| Contributions | - | 29,210 | 3,372,550 | 3,401,760 |
| Funds released from restrictions for buildings (Note 11) | 60,791 | (60,791) | - | - |
| Change in value of split interest obligations | (11,094) | (5,595) | 377 | (16,312) |
| Change in net assets from nonoperating activities | 64,405 | (42,177) | 3,404,139 | 3,426,367 |
| Change in net assets | 6,634,412 | 851,725 | 3,404,139 | 10,890,276 |
| Net assets, beginning of year | 38,983,797 | 18,160,849 | 20,229,697 | 77,374,343 |
| Net assets, end of year | $ 45,618,209 | $ 19,012,574 | $ 23,633,836 | $ 88,264,619 |

*The accompanying notes are an integral part of this financial statement.*

# MERRIMACK COLLEGE
## Statements of Cash Flows
### Years ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 4,994,754 | $ 10,890,276 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 5,230,939 | 4,830,818 |
| Bond amortization | (87,280) | (99,840) |
| Provision for doubtful accounts | 49,914 | 286,083 |
| Realized and unrealized (gains) losses on investment | 873,943 | (611,496) |
| Contributions received for long-term investment | (731,037) | (3,337,063) |
| Changes in operating assets and liabilities excluding cash | | |
| Accounts and loans receivable | (1,219,118) | 196,823 |
| Contributions receivable | 391,376 | (183,683) |
| Other assets | 312,511 | 107,500 |
| Accounts payable and accrued expenses | (1,930,272) | 2,209,166 |
| Student deposits and deferred revenue | 71,921 | (1,096,830) |
| Net cash provided by operating activities | 7,957,651 | 13,191,754 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Deposits with bond trustees | 8,468,865 | (14,968,299) |
| Purchase of land, buildings, and equipment | (14,634,906) | (11,419,206) |
| Purchase of investments | (49,019,643) | (8,820,789) |
| Proceeds from sale of investments | 49,451,114 | 4,655,237 |
| Net cash used in investing activities | (5,734,570) | (30,553,057) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of new debt | - | 21,599,403 |
| Bond refinancing costs | - | (256,216) |
| Repayments of debt | (1,385,532) | (1,418,980) |
| Contributions received for long-term investment | 731,037 | 3,337,063 |
| Change in government grants payable | (2,409,341) | 49,193 |
| Net cash (used in)/provided by financing activities | (3,063,836) | 23,310,463 |
| Net change in cash and cash equivalents | (840,755) | 5,949,160 |
| Cash and cash equivalents, beginning of year | 19,988,448 | 14,039,288 |
| Cash and cash equivalents, end of year | $ 19,147,693 | $ 19,988,448 |
| Supplemental data: | | |
| Cash paid during the year for interest | $ 4,138,856 | $ 3,598,626 |
| Non cash construction costs | $ 655,097 | $ 3,852,361 |

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

## 1. BACKGROUND

Merrimack College is a private, coeducational institution with a Catholic tradition that currently offers undergraduate and graduate courses to over 3,000 undergraduate students and 450 graduate students. Inspired by the Catholic faith and the Augustinian tradition of seeking truth through inquiry and dialogue, the College's vision is to prepare students to adapt creatively to tomorrow's realities through excellence in the liberal arts, sciences, and the professions; build a community of scholars welcoming and respecting a diversity of backgrounds, experiences, beliefs, and perspectives; cultivate the intellectual, moral, spiritual, physical and personal awareness needed to make wise choices for life, career, and service; encourage and support scholarly work that contributes to the wisdom on which society bases its decisions; and engage other educational institutions, industry, and agencies of social change in collaborative efforts fostering a just, peaceful, and sustainable world. The College's mission is to enlighten minds, engage hearts, and empower lives.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Statement Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met by actions of the College and/or the passage of time.

*Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Non-cash gifts are recorded at fair value at the date of donation. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily or permanently restricted net assets as appropriate. Temporarily restricted net assets are reclassified to unrestricted net assets when the cash is received and any purpose restrictions are met. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Income and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift or the College's interpretation of relevant state law impose restrictions on the use of the income; and
- as increases in unrestricted net assets in all other cases.

**Operations**

The accompanying statements of activities present the change in net assets distinguishing between operating and nonoperating activities. Operating activities principally include all revenues and expenses that relate to the College's educational programs, research, training and supporting activities. Operating revenues also include investment return pursuant to the College's spending rate policy earned on long-term investments held for endowment and similar purposes.

Expenses associated with the operation and maintenance of College plant assets are allocated on the basis of square footage utilized by the functional categories. Debt interest and depreciation expense are allocated to functional areas based on the actual purpose of the assets.

Expenses associated with fundraising activities of the College were approximately $2.4 million and $2.5 million in 2016 and 2015, respectively, and are included in institutional support in the statements of activities.

The College has defined nonoperating activities principally to include investment income earned, and gains and losses on investments held for long-term purposes and gift revenue restricted or designated for long-term investment or capital expenditures, net of amounts distributed to support operations in accordance with the endowment spending policy. Certain other gains and losses considered to be of a more unusual or non-recurring nature are also included as part of nonoperating activities.

**Cash and Cash Equivalents**

The College considers cash equivalents as investments with maturities at date of purchase of three months or less. The College maintains cash balances at several banks in excess of federally insured limits. The College also maintains cash balances in money market funds which are not insured. The College has not experienced any losses in these accounts and believes it is not exposed to any undue credit risk.

**Accounts Receivable**

The allowance for uncollectible accounts is provided based upon management's judgment including such factors as prior collection history and type of receivable. The College writes-off receivables when they become uncollectible and payments subsequently received on such receivables are credited to the allowance for uncollectible accounts.

### Investments

Investments are stated 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. 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 also holds shares or units in alternative investment funds involving private equity, and venture capital. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds 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 estimates the fair value of alternative investments using the net asset value (“NAV”) or its equivalent reported by each underlying alternative investment fund. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds’ liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of the College’s interests in the funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are not necessarily observable. It is therefore possible that if the College were to sell a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

### Deferred Revenue

Students’ reservation deposits and advance payments for tuition and room and board which relate to the College’s upcoming semesters have been deferred and will be recognized as revenue when earned.

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The more significant estimates made by the College involve the reserve for loss contingencies, allowance for uncollectable accounts, net realizable values of contribution receivable, economic useful lives of buildings, conditional asset retirement obligations, valuation of certain investments and present value of annuity payment obligations. Actual results could differ from those estimates.

### Land, Buildings, and Equipment

Constructed and purchased property, plant, and equipment, with the exception of library books and periodicals, are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets. Plant assets donated to the College are carried at appraised value at the date of the gift and depreciated on a straight-line basis over their estimated useful lives.

The College has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities at the time of disposal of certain capital assets. Once the College determines an obligation exists, it assesses whether or not the amount of the obligation can be reasonably estimated. If the amount of the obligation can be reasonably estimated, the College records the present value of the obligation, the corresponding cost is capitalized and the liability is accreted to fair value each reporting period until settled. At June 30, 2016 and 2015 the College has an estimated liability of $153,604 and $151,783, respectively, for these activities. The estimated liability relates principally to buildings that are substantially depreciated.

### Income Taxes

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The College is required to assess uncertain tax positions and has determined that there were no such positions that are material to the financial statements.

### Advances from the U.S. Department of Education

These amounts include funds advanced to the College under the Federal Perkins Loan Program. Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are generally refundable to the Federal government.

### Contributions

The College reports gifts of cash and other assets as restricted support if they are received with donor restrictions. When a donor restriction expires, that is, when either a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support in the statement of activities.

The College reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted non-operating revenue. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### Bond Issuance Costs

Administrative, legal, insurance, financing, underwriting discount and other direct expenses that were incurred in connection with bond and other debt offerings are deferred and are being amortized over the lives of the respective debt issues.

### Functional Expense

Operation and maintenance expense, depreciation and amortization of plant assets and interest on long-term debt are allocated to program and supporting activities based on the primary use of the facilities.

### Adoption of New Accounting Rules

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent), which exempts investments measured using the net asset value ("NAV") practical expedient in Accounting Standards Codification 820, Fair Value Measurement, from categorization within the fair value hierarchy. The guidance requires retrospective application and was adopted by the College for the year ended June 30, 2016 with retroactive adoption for the year ended June 30, 2015. This resulted in the removal of the College's investments for which fair value is measured using the NAV per share practical expedient from the fair value hierarchy. The amount of investments measured at NAV (or its equivalent) is disclosed so that total investments in the fair value hierarchy can be reconciled to total investments measured at fair value on the statement of financial position in Note 4.

## 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:

| | 2016 | 2015 |
|---|---|---|
| Unconditional promises expected to be collected in | | |
| Less than one year | $ 800,791 | $ 470,586 |
| One year to five years | 1,478,682 | 2,350,852 |
| Five years and thereafter | 369,557 | 280,000 |
| | 2,649,030 | 3,101,438 |
| Allowance for discount and doubtful pledges | (451,811) | (512,843) |
| | $ 2,197,219 | $ 2,588,595 |

Contributions receivable are discounted at rates ranging between 0.75% and 1.875%. In the years ended June 30, 2016 and 2015, the College wrote off $1,621,000 and $12,000, respectively, of uncollectible pledges.

## 4. INVESTMENTS AND DEPOSITS

### Overall Investment Objective

The overall investment objective of the College is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The College diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Investment Committee, which oversees the College's investment program in accordance with established guidelines.

### Allocation of Investment Strategies

In addition to traditional stocks and fixed-income securities, the College also holds shares or units in traditional institutional funds as well as in alternative investment funds involving private equity. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITS) or commercial real estate through sole-member entities. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Moreover, the fair values of the College's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

**Fair Value Measurements**

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable

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

Following is a description of the valuation methodologies used for assets measured at fair value:

*Cash and equivalents* - Investments with maturities at date of purchase of three months or less.

*Mutual Funds*- Investments such as actively traded equity securities, government obligations, and money market funds whose fair values are based on quoted prices and therefore classified in Level 1 of the fair value hierarchy.

*Alternative Investments* - The College's ownership in alternative investment securities, private equity and venture capital funds is recorded based on a recurring fair value measurement. 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 methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables summarize the College's assets by major category in the fair value hierarchy as of June 30, as well as related strategy, liquidity and funding commitments:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Redemption or liquidation** | **Days' notice** |
| Working capital investments | | | | | | |
| Cash and cash equivalents | $ 314,828 | $ - | $ - | $ 314,828 | | |
| U.S. and international bonds | 174,944 | - | - | 174,944 | | |
| U.S. and international equity funds | 164,537 | - | - | 164,537 | | |
| Total working capital investments | 654,309 | - | - | 654,309 | | |
| Long-term investments (endowment) | | | | | | |
| Cash and cash equivalents | 902,371 | - | - | 902,371 | | |
| U.S. and international bond funds | 1,036,260 | - | - | 1,036,260 | | |
| U.S. and international equity funds | 2,837,930 | - | - | 2,837,930 | | |
| Private equity and venture capital funds | - | - | 2,735,606 | 2,735,606 | Illiquid[1] | N/A |
| Investments measured at NAV | - | - | - | 42,401,972 | Daily | 1-3 days |
| Total long-term investments | 4,776,561 | - | 2,735,606 | 49,914,139 | | |
| Total investments | 5,430,870 | - | 2,735,606 | 50,568,448 | | |
| Deposits with bond trustees - cash and cash equivalents | 14,106,408 | - | - | 14,106,408 | | |
| Total | $ 19,537,278 | $ - | $ 2,735,606 | $ 64,674,856 | | |

[1] These funds are expected to liquidate within 1 - 9 years. Unfunded future commitments aggregate to $339,875.

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Redemption or liquidation** | **Days' notice** |
| Working capital investments | | | | | | |
| Cash and cash equivalents | $ 254,037 | $ - | $ - | $ 254,037 | | |
| U.S. and international bonds | 177,069 | - | - | 177,069 | | |
| U.S. and international equity funds | 167,602 | - | - | 167,602 | | |
| Total working capital investments | 598,708 | - | - | 598,708 | | |
| Long-term investments (endowment) | | | | | | |
| Cash and cash equivalents | 400,827 | - | - | 400,827 | | |
| U.S. and international bond funds | 13,931,041 | - | - | 13,931,041 | | |
| U.S. and international equity funds | - | - | - | - | | |
| U.S. government obligations funds | - | - | - | - | | |
| Private equity and venture capital funds | - | - | 2,788,867 | 2,788,867 | Illiquid[1] | N/A |
| Investment at NAV | - | - | - | 34,154,419 | Daily | 1 - 3 Days |
| Total long-term investments | 14,331,868 | - | 2,788,867 | 51,275,154 | | |
| Total investments | 14,930,576 | - | 2,788,867 | 51,873,862 | | |
| Deposits with bond trustees - cash and cash equivalents | 22,556,003 | - | - | 22,556,003 | | |
| Total | $ 37,486,580 | $ - | $ 2,788,867 | $ 74,429,865 | | |

[1] These funds are expected to liquidate within 1 - 9 years. Unfunded future commitments aggregate to $382,061.

The following table presents the College's activity for the fiscal years ended June 30, 2016 and 2015 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| Level 3 Roll Forward | Private Equity Funds | Hedge, Commodities and Venture Funds | Total |
|---|---|---|---|
| Fair value at July 1, 2014 | $ 1,724,460 | $ 1,084,093 | $ 2,808,553 |
| Acquisitions | 128,272 | 19,610 | 147,882 |
| Dispositions | (232,455) | (148,695) | (381,150) |
| Net realized gain (loss) | 167,261 | 134,703 | 301,964 |
| Unrealized gains on investments | (69,690) | (18,692) | (88,382) |
| Fair value at June 30, 2015 | $ 1,717,848 | $ 1,071,019 | $ 2,788,867 |
| Acquisitions | $ 38,855 | $ 11,250 | $ 50,105 |
| Dispositions | (296,212) | (122,040) | (418,252) |
| Net realized gain (loss) | 182,717 | 70,789 | 253,506 |
| Unrealized gains on investments | 127,228 | (65,847) | 61,381 |
| Fair value at June 30, 2016 | $ 1,770,436 | $ 965,171 | $ 2,735,607 |

Total investment return from working capital investments and long-term investments consisted of the following for the years ended June 30:

| | 2016 | 2015 |
|---|---|---|
| Realized net gains (losses) | $ 10,864,459 | $ 352,228 |
| Unrealized net gains (losses) | (11,738,402) | 259,268 |
| Interest and dividends | 1,055,676 | 1,382,132 |
| Management fees | (125,000) | (93,279) |
| Total return | $ 56,733 | $ 1,900,349 |

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

| | 2016 | 2015 |
|---|---|---|
| Long-term investment return utilized - operating activities | $ 1,862,228 | $ 1,862,228 |
| Long-term investment return - non operating activites | (1,805,495) | 38,121 |
| Total return | $ 56,733 | $ 1,900,349 |

**Liquidity**

Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the College may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The College cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.

**Deposits with Bond Trustees**

Deposits with bond trustees consists of money market investments held at Bank New York Mellon and is comprised of approximately $4,700,000 debt service reserve fund, $5,800,000 project fund, and $3,600,000 principal and interest payment due on July 1, 2016.

## 5. ENDOWMENT

The College's endowment consists of approximately 300 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (the "Act") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation

5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

**Return Objectives and Risk Parameters**

The College has adopted investment and spending policies for endowment assets that are intended to ensure a total return (yield plus capital appreciation) necessary to at least preserve, but expected to enhance (in real dollar terms) endowment assets, while providing a dependable source of income for current operations and scholarships. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board-designated funds.

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

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The College has interpreted relevant state law as generally permitting the spending of gains on endowment funds over a stipulated period of time. State law allows the board to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering the College's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the College's current endowment spending policy, which is within the guidelines specified under state law, 0% to 5% of the average of the fair value of qualifying endowment investments at the end of the previous three years may be authorized for appropriation. The actual authorized appropriation amounted to $1,862,228 in 2016 and 2015. In establishing this policy, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature that are reported as reductions in unrestricted net assets. There were no deficiencies reported as of June 30, 2016 and 2015.

Endowment net assets consist of the following at June 30:

| | 2016 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Donor-restricted endowment funds | $ - | $ 13,757,487 | $ 23,884,419 | $ 37,641,906 |
| Board-designated endowment funds | 12,272,233 | - | - | 12,272,233 |
| Total endowed net assets | $ 12,272,233 | $ 13,757,487 | $ 23,884,419 | $ 49,914,139 |

| | 2015 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Donor-restricted endowment funds | $ - | $ 14,643,458 | $ 23,475,742 | $ 38,119,200 |
| Other donor restricted endowment funds | - | 809,183 | - | 809,183 |
| Board-designated endowment funds | 12,346,771 | - | - | 12,346,771 |
| Total endowed net assets | $ 12,346,771 | $ 15,452,641 | $ 23,475,742 | $ 51,275,154 |

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, July 1, 2014 | $ 11,015,439 | $ 15,385,271 | $ 20,163,827 | $ 46,564,537 |
| Investment return | | | | |
| Investment income | 303,775 | 988,053 | - | 1,291,828 |
| Net appreciation | 143,095 | 465,426 | - | 608,521 |
| Total investment return | 446,870 | 1,453,479 | - | 1,900,349 |
| Contributions/additions | 1,300,000 | - | 3,311,915 | 4,611,915 |
| Appropriation of endowment assets for expenditure | (477,525) | (1,384,703) | - | (1,862,228) |
| Receipt of prior year appropriations | 61,987 | (1,406) | - | 60,581 |
| Endowment net assets, July 1, 2015 | $ 12,346,771 | $ 15,452,641 | $ 23,475,742 | $ 51,275,154 |
| Investment income | 226,592 | 716,079 | - | 942,671 |
| Net appreciation | (212,954) | (672,984) | - | (885,938) |
| Total investment return | 13,638 | 43,095 | - | 56,733 |
| Contributions/additions | - | - | 408,677 | 408,677 |
| Appropriation of endowment assets for expenditure | (123,979) | (1,738,249) | - | (1,862,228) |
| Receipt of prior year appropriations | 35,803 | - | - | 35,803 |
| Endowment net assets, June 30, 2016 | $ 12,272,233 | $ 13,757,487 | $ 23,884,419 | $ 49,914,139 |

## *6.* ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS AND STUDENT LOANS RECEIVABLE

### Student Loans

The College makes uncollateralized loans to students based on financial need. Student loans are funded primarily through Federal government loan programs.

The College participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loans and a decrease in the liability to the government.

Loan balances are written off only when they are deemed to be permanently uncollectible, which generally results in their being assigned to the Federal government.

**Reserves**

Accounts receivable are net of an allowance for uncollectible accounts of $423,000 and $642,000 at June 30, 2016 and 2015, respectively.

Loans receivable are net of an allowance for uncollectible accounts of approximately $464,000 and $2,170,000 at June 30, 2016 and 2015, respectively.

## 7. LAND, BUILDINGS AND EQUIPMENT

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

| | Estimated Lives | 2016 | 2015 |
|---|---|---|---|
| Land | | $ 980,852 | $ 213,318 |
| Land improvements | 10 - 30 years | 9,988,767 | 9,460,788 |
| Buildings and components | 50 years | 146,549,970 | 128,273,455 |
| Furniture and equipment | 5 years | 37,171,699 | 35,602,028 |
| Library books and periodicals | | 2,544,424 | 2,544,424 |
| Automobiles and trucks | 5 - 7 years | 1,208,818 | 1,164,780 |
| Capital leases | 3 - 4 years | 478,327 | 478,327 |
| Leasehold improvements | 10 - 25 years | 2,338,699 | 2,175,391 |
| Construction in progress | | 528,112 | 10,458,785 |
| | | 201,789,668 | 190,371,296 |
| Accumulated depreciation and amortization | | (93,634,338) | (88,403,399) |
| | | $ 108,155,330 | $ 101,967,897 |

Depreciation and amortization expense charged to operations was $5,230,939 and $4,830,818 as of June 30, 2016 and 2015, respectively.

During construction the College capitalizes interest cost incurred on funds used to construct plant, property and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was $448,615 in 2016 and $1,071,184 in 2015.

## 8. DEBT

Debt consists of the following at June 30, 2016 as follows:

| | Payments Through | Balance Outstanding |
|---|---|---|
| Bonds payable | | |
| Massachusetts Development Finance Agency Bond - Series 2012A | 2042 | $ 59,815,000 |
| Massachusetts Development Finance Agency Bond - Series 2012B | 2016 | 1,380,000 |
| Massachusetts Development Finance Agency Bond - Series 2014 | 2044 | 21,720,000 |
| Total bonds payable | | 82,915,000 |
| Notes payable | 2016 | 15,089 |
| Total principal | | 82,930,089 |
| Plus unamortized bond premium | | 3,899,585 |
| Less unamortized bond discount | | (722,029) |
| Total debt | | $ 86,107,645 |

Debt consists of the following at June 30, 2015 as follows:

| | Payments Through | Balance Outstanding |
|---|---|---|
| Bonds payable | | |
| Massachusetts Development Finance Agency Bond - Series 2012A | 2042 | $ 59,815,000 |
| Massachusetts Development Finance Agency Bond - Series 2012B | 2016 | 2,725,000 |
| Massachusetts Development Finance Agency Bond - Series 2014 | 2044 | 21,720,000 |
| Total bonds payable | | 84,260,000 |
| Notes payable | 2016 | 55,619 |
| Total principal | | 84,315,619 |
| Plus unamortized bond premium | | 4,049,319 |
| Less unamortized bond discount | | (749,238) |
| Total debt | | $ 87,615,700 |

**Bonds Payable**

In August 2012, the College issued $59,815,000 in Massachusetts Development Financing Agency Tax Exempt Bonds, Merrimack College Issue, Series 2012A maturing in 2042 primarily for the purposes of refunding the Series 1997, 2002 and 2009 Revenue Bonds and the acquisition, construction, and renovation of various facilities on campus including new student residences and additional classroom and administrative space included in an 85,000 square foot addition to the Volpe Athletic Center. The Series 2012A Bonds carry fixed interest rates ranging from 2.5% to 5.25% over the life of the bond. The interest rate at year end June 30, 2016 and 2015 was 2.5%.

The Series 2012A Bonds shall mature on July 1 in the amounts and shall bear interest at the rates per annum as follows:

| Year | Principal Amount | Interest Rate |
|---|---|---|
| 2017 | $ 1,185,000 | 2.50 % |
| 2018 | 1,235,000 | 2.50 % |
| 2019 | 1,285,000 | 2.50 % |
| 2020 | 1,340,000 | 5.00 % |
| 2021 | 1,410,000 | 5.00 % |
| 2022 | 1,480,000 | 5.00 % |
| 2027 | 8,600,000 | 5.00 % |
| 2032 | 10,880,000 | 5.00 % |
| 2042 | 32,400,000 | 5.25 % |

In August 2012, the College issued $5,300,000 in Massachusetts Development Financing Agency Non Tax Exempt Bonds, Merrimack College Issue, Series 2012B maturing in 2016 primarily for the construction of the ice rink portion of the 85,000 square foot addition to the Volpe Athletic Center which does not qualify for tax exempt financing. The Series 2012B Bond carry a fixed interest rate of 2.75% over the life of the bond.

The Series 2012B Bonds mature annually on July 1 in the amounts and shall bear interest at the rates per annum as follows:

| Year | Principal Amount | Interest Rate |
|---|---|---|
| 2016 | 1,380,000 | 2.75% |

In July 2014, the College issued $21,720,000 in Massachusetts Development Financing Agency Tax Exempt Bonds, Merrimack College Issue, Series 2014 maturing in 2044 primarily for the purposes of construction of new student residences and an academic/student life experience building. The Series 2014 Bonds carry fixed interest rates ranging from 4.5% to 5.125% over the life of the bond. The interest rate at year end June 30, 2016 and 2015 was 5%.

The Series 2014 Bonds shall mature on July 1 in the amounts and shall bear interest at the rates per annum as follows:

| Year | Principal Amount | Interest Rate |
|---|---|---|
| 2021 | $ 1,400,000 | 5.000 % |
| 2024 | 1,000,000 | 5.000 % |
| 2029 | 1,840,000 | 4.500 % |
| 2044 | 17,480,000 | 5.125 % |

The scheduled annual principal payments required by the above indebtedness at June 30, 2015 are shown below.

| Year Ending June 30 | Principal |
|---|---|
| 2017 | $ 1,545,089 |
| 2018 | 1,465,000 |
| 2019 | 1,510,000 |
| 2020 | 1,555,000 |
| Thereafter | 76,855,000 |
| | $ 82,930,089 |

Interest expense charged to operations was $3,522,013 and $2,912,342 as of June 30, 2016 and 2015, respectively.

**Disclosures about the Fair Value of Financial Instruments**

The College has determined the estimated fair values of its financial instruments as of June 30, 2016 by using, where practicable, appropriate valuation methodologies. The College estimated that the fair value of its total indebtedness was largely equivalent to its net carrying value as of June 30, 2016.

**Capital Lease Obligations**

In December 2013, the College signed a $118,983 three-year capital lease for the acquisition of fitness equipment, at an interest rate of 3.47%.

**Line of Credit**

In November 2015 the College secured a one-year $5,000,000 committed line of credit. The line of credit bears interest at 30-day LIBOR plus 1.25%, with a 0.10% unused fee. The line of credit includes a consecutive 60-day clean-up provision, which must be met annually. The line of credit is subject to annual extensions upon mutual agreement. The line of credit was not utilitized during the year. There was no amount outstanding as of June 30, 2016.

## 9. TEMPORARILY RESTRICTED NET ASSETS

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

| | 2016 | 2015 |
|---|---|---|
| Unspent purpose restricted gifts and endowment income | | |
| Instruction | $ 499,246 | $ 539,291 |
| Student services | 189,148 | 150,391 |
| Academic support | 405,026 | 301,994 |
| Student aid | 577,872 | 297,587 |
| Building projects | 423,028 | 372,112 |
| Other | 680,739 | 332,242 |
| | 2,775,059 | 1,993,617 |
| Unappropriated gains from permanently restricted net assets | 13,757,487 | 14,643,458 |
| Time restrictions | | |
| Instruction | 181,491 | 124,131 |
| Student services | 551,485 | 618,277 |
| Building projects | 294,204 | 1,625,886 |
| Other | 721,561 | 7,205 |
| | 1,748,741 | 2,375,499 |
| | $ 18,281,287 | $ 19,012,574 |

## 10. PERMANENTLY RESTRICTED NET ASSETS

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

| | 2016 | 2015 |
|---|---|---|
| Purpose restriction | | |
| Instruction | $ 7,051,065 | $ 7,025,252 |
| Unrestricted | 1,631,954 | 1,631,954 |
| Student aid | 14,622,412 | 14,253,507 |
| Other | 578,988 | 565,029 |
| | 23,884,419 | 23,475,742 |
| Time restrictions | | |
| Instruction | 220,024 | 32,094 |
| Academic support | - | 37 |
| Student aid | 165,297 | 125,963 |
| | 385,321 | 158,094 |
| | $ 24,269,740 | $ 23,633,836 |

## 11. NET ASSETS RELEASED FROM RESTRICTIONS

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

| | 2016 | 2015 |
|---|---|---|
| Purpose restriction | | |
| Instruction | $ 399,422 | $ 173,418 |
| Student services | 281,280 | 374,985 |
| Academic support | 231,697 | 243,384 |
| Student aid | 1,463,986 | 1,552,796 |
| Buildings (non-operating) | 322,360 | 60,791 |
| Other | 243,985 | 115,543 |
| | $ 2,942,730 | $ 2,520,917 |

## 12. RELATED-PARTY TRANSACTIONS

The Order of Saint Augustine (the "Order") was instrumental in the founding of Merrimack College. Members of the Order continue to serve as Merrimack College administrators and faculty. Designated members of the Order are members of the College's Board of Trustees.

The College remits to the Order lay-equivalent salaries for those services provided by Order members. In the years ended June 30, 2016 and 2015, such salaries totaled $408,812 and $396,000, respectively.

Under a lease dated March 22, 1994, the Order provides the College with office space in Austin Hall. The College paid annual rent of $82,768 in the years ended June 30, 2016 and 2015. The lease is renewable or extended annually until March 22, 2033.

## 13. DEFINED CONTRIBUTION PLAN

Faculty and staff members of the College are participants in a defined contribution retirement annuity plan. Total employer contributions under the plan amounted to $2,437,049 and $2,594,847 for the years ended June 30, 2016 and 2015, respectively. Required employer contributions under the plan are funded at the same time as employee contributions.

## 14. CONTINGENCIES

### Federal Perkins Loan Program

In late 2011, the College identified issues related to the prior administration's reconciliation and record-keeping of the College's Perkins loan program. The College determined that there were significant discrepancies related to the loan program and that further investigation was warranted. The College is working with the U.S. Department of Education and other federal agencies to help resolve all issues related to this situation. The former director of financial aid was charged with crimes related to her administration of the loan program, and the College was named as a victim in the criminal proceeding. On November 24, 2014, the former director entered a guilty plea on all counts; and on March 24, 2015 she was sentenced to prison. On August 3, 2015, the Court held a final restitution hearing and ordered the former director to pay restitution in the amount of $1,543,702. As a result of the sentence and restitution order, during the fiscal year ended June 30, 2016, the criminal matter was closed.

In response to this matter, the College implemented a program to reimburse all individual students for payments made on invalid Perkins loans during the relevant time period and to cancel any remaining Perkins loans identified by the College as invalid, and to otherwise address concerns related to this issue. The College hired a third-party administrator to administer the reimbursement process and an alternative dispute resolution process with the student victims.

Merrimack is negotiating with counsel for the former director for compensation for the amounts it reimbursed victims for her fraud. In fiscal year 2012, the College established a reserve of $4.1 million related to estimated future costs associated with this matter. During the year ended June 30, 2016, each student who made payments on invalid loans was sent payment to reimburse those amounts paid on invalid loans. Also as of June 30, 2016, the College has responded to those concerns raised by individuals who did not make payments on invalid loans, but claimed some other damage associated with the former financial aid director's actions. The payments to students, along with other costs, reduced the reserve balance. As of June 30, 2016, the reserve is $1.1 million and reflects the remaining estimated loss associated with this matter.

Management has reviewed its insurance policies and determined that losses related to the loan program may be recoverable. The College has put its insurers on notice of this issue and continues to work with its insurers to ensure proper coverage in this matter. Merrimack will assert any and all rights to coverage under its available policies

Aside from the Perkins Loan matter described above, the College is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The College defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its financial position, results of operations, or cash flows.

## 15. SUBSEQUENT EVENTS

The College has evaluated all events or transactions that occurred after June 30, 2016 up through September 22, 2016 the date these financial statements were issued. During this period, the College did not have any material recognizable subsequent events, other than what has been previously disclosed.