WASHINGTON COLLEGE

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

WASHINGTON COLLEGE
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YEARS ENDED JUNE 30, 2019 AND 2018

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Visitors and Governors
Washington College
Chestertown, Maryland

We have audited the accompanying financial statements of Washington College (the 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College'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 College'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 Washington 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 accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, management has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 22, 2019

WASHINGTON COLLEGE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 8,948,542	$ 20,039,289
Accounts Receivable, Net	1,551,193	1,077,120
Prepaid Expenses and Other Assets	899,956	1,482,130
Pledges Receivable, Net	5,878,649	7,764,841
Student Loans Receivable, Net	68,503	80,507
Investments:		
Investments - Operating	20,957,794	21,072,744
Investments of Endowed Funds	229,071,330	226,922,045
Assets Held in Annuity Trusts	873,486	910,512
Total Investments	250,902,610	248,905,301
Land, Buildings, and Equipment, Net	184,991,495	172,870,746
Total Assets	$ 453,240,948	$ 452,219,934
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 3,491,668	$ 4,945,688
Accrued Salaries and Wages	1,396,628	2,083,907
Deferred Revenues and Deposits	1,231,331	988,752
Funds Held for Others	698,992	665,461
Annuities Payable	526,448	566,292
Interest Rate Swaps	7,207,066	5,223,490
Long-Term Debt, Net	64,649,363	66,849,945
Total Liabilities	79,201,496	81,323,535
NET ASSETS		
Without Donor Restrictions	122,615,597	117,082,609
With Donor Restrictions	251,423,855	253,813,790
Total Net Assets	374,039,452	370,896,399
Total Liabilities and Net Assets	$ 453,240,948	$ 452,219,934

See accompanying Notes to Financial Statements.

WASHINGTON COLLEGE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT						
Tuition and Fees, Net	$ 27,533,773	$ -	$ 27,533,773	$ 32,467,392	$ -	$ 32,467,392
U.S. Government Grants	166,430	873,160	1,039,590	129,907	712,495	842,402
State and Local Grants	2,085,017	2,027,120	4,112,137	1,756,730	498,848	2,255,578
Private Gifts	2,545,650	9,581,339	12,126,989	2,038,671	18,914,635	20,953,306
Endowment Return Used for Operations	884,765	11,973,698	12,858,463	938,499	11,501,719	12,440,218
Investment Income	540,105	1,938	542,043	373,363	12,464	385,827
Change in Value of Split-Interest Agreements	(838)	40,080	39,242	(1,459)	30,199	28,740
Sales, Auxiliary Enterprises	15,151,563	64,740	15,216,303	15,913,621	76,790	15,990,411
Other Sources	705,587	431,918	1,137,505	930,484	435,709	1,366,193
Total Operating Revenues and Gains	49,612,052	24,993,993	74,606,045	54,547,208	32,182,859	86,730,067
Net Assets Released from Restrictions	19,352,437	(19,352,437)	-	17,083,556	(17,083,556)	-
Total Operating Revenues, Gains and Other Support	68,964,489	5,641,556	74,606,045	71,630,764	15,099,303	86,730,067
Operating Expenses:						
Instruction	24,541,870	-	24,541,870	23,306,139	-	23,306,139
Academic Support- Library	1,775,896	-	1,775,896	1,924,074	-	1,924,074
Academic Support- Other	1,780,932	-	1,780,932	2,214,374	-	2,214,374
Student Services	13,922,763	-	13,922,763	13,408,444	-	13,408,444
Institutional Support	12,782,389	-	12,782,389	15,414,946	-	15,414,946
Auxiliary Enterprises	11,028,179	-	11,028,179	12,298,668	-	12,298,668
General Administration	3,132,460	-	3,132,460	3,095,364	-	3,095,364
Total Operating Expenses	68,964,489	-	68,964,489	71,662,009	-	71,662,009
Change in Net Assets from Operating Activities	-	5,641,556	5,641,556	(31,245)	15,099,303	15,068,058
NONOPERATING ACTIVITIES						
Net Gain on Investments	986,642	11,329,213	12,315,855	807,009	17,614,794	18,421,803
Withdrawn for Endowment Payout	(884,765)	(11,973,698)	(12,858,463)	(938,499)	(11,501,719)	(12,440,218)
Gain on Disposal of Fixed Assets	27,681	-	27,681	3,052	-	3,052
Change in Fair Value of Interest Rate Swaps	(1,983,576)	-	(1,983,576)	2,272,025	-	2,272,025
Net Assets Released from Restrictions - Capital	7,387,006	(7,387,006)	-	299,200	(299,200)	-
Total Nonoperating Activities	5,532,988	(8,031,491)	(2,498,503)	2,442,787	5,813,875	8,256,662
CHANGE IN NET ASSETS	5,532,988	(2,389,935)	3,143,053	2,411,542	20,913,178	23,324,720
Net Assets - Beginning of Year	117,082,609	253,813,790	370,896,399	114,671,067	232,900,612	347,571,679
NET ASSETS - END OF YEAR	$ 122,615,597	$ 251,423,855	$ 374,039,452	$ 117,082,609	$ 253,813,790	$ 370,896,399

See accompanying Notes to Financial Statements.

WASHINGTON COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 3,143,053	$ 23,324,720
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	8,767,829	8,769,487
Amortization	19,418	19,418
Bad Debt Expense	201,491	259,809
(Gain) loss on Retirement of Fixed Assets	(27,681)	(3,052)
Net Realized and Unrealized Gains on Investments	(12,315,855)	(18,421,803)
Change in Value of Split-Interest Agreements	(2,818)	16,883
Change in Fair Value of Interest Rate Swaps	1,983,576	(2,272,025)
Contributions Restricted for Long-Term Investment	(5,575,749)	(8,253,377)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(539,907)	884,830
Prepaid Expenses and Other Assets	582,174	(796,679)
Pledges Receivable, Net	1,751,535	(3,412,662)
Accounts Payable, Accrued Expenses, and Accrued Salaries and Wages	(2,141,299)	1,395,248
Deferred Revenues and Deposits	242,579	(674,392)
Funds Held for Others	33,531	16,427
Net Cash Provided (Used) by Operating Activities	(3,878,123)	852,832
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(21,159,567)	(12,496,063)
Proceeds from Sale of Fixed Assets	298,670	67,223
Purchases of Investments	(58,173,538)	(80,400,722)
Proceeds from Sales of Investments	68,455,058	80,547,590
(Advances) Repayments on Student Loans	11,004	(5,361)
Net Cash Used by Investing Activities	(10,568,373)	(12,287,333)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for Long-Term Investment	5,575,749	8,253,377
Payments on Long-Term Debt	(2,220,000)	(2,054,000)
Net Cash Provided by Financing Activities	3,355,749	6,199,377
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,090,747)	(5,235,124)
Cash and Cash Equivalents - Beginning of Year	20,039,289	25,274,413
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 8,948,542	$ 20,039,289
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	$ 2,727,142	$ 2,210,511
Noncash Gifts	$ 10,065	$ 102,684
Capital Assets Included in Accounts Payable	$ -	$ 3,141,842

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS

Washington College (the College) is a private, nonprofit College of Arts and Sciences chartered by the state of Maryland in 1782. The College is situated on the Chester River on Maryland's Eastern Shore. The College enrolls approximately 1,450 undergraduate students.

The College seeks to develop in its students the habits of analytic thought, aesthetic insight, imagination, ethical sensitivity, and clarity of expression. These qualities of the mind are the result of excellent teaching, of active inquiry, and of a wide range of experiences and social interactions in an intimate community of cultural, social, and political diversity. The College also strives to enrich the cultural and intellectual life of its regional community.

Each student explores a range of disciplines in the humanities, the social sciences, and the natural sciences and concentrates on a major academic program that culminates in a significant independent project. Unhurried conversation and personal associations complement instruction and study. Thus, the College affirms the importance of its residential tradition with its opportunities to engage in the arts and sciences, athletics, service, and social activities in the company of people of varied backgrounds, experience, and interests. The College also offers certification programs, graduate studies, and opportunities for lifelong learning.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies employed by the College are described below.

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, the College resources are classified and reported as separate classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Include expendable resources that are used to carry out the College's operations and are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the College or may be limited by contractual agreement with outside parties.

Net Assets With Donor Restrictions – Include funds received from contributions and purchases of annuities that: a) restrict their use to a specific purpose and/or the passage of time; or b) require that they be maintained in perpetuity by the College; generally, the donor of these assets permits the College to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes. The income will remain in net assets with donor restrictions until appropriated for spend, governed by the College's spending policy.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Revenues and gains and losses on investments and other assets are reported as changes in net assets without donor restrictions unless limited by explicit donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions and are allocated into functional categories depending upon the ultimate purpose of the expenditure. Expirations of restrictions on net assets, where the donor-imposed purpose has been accomplished or the stipulated time period has elapsed, are reported as net assets released from restrictions.

Cash and Cash Equivalents

The College defines cash equivalents as highly liquid financial instruments with original maturities of three months or less. The College invests excess cash in bank overnight repurchase agreements, short-term securities, and money market funds, which are converted into cash as needed to meet the College's obligations.

Investments

General

Investment securities are reflected in the accompanying financial statements at quoted fair values except for alternative investments, which include limited partnerships, real estate funds and hedge funds, for which quoted market prices are not readily available. The estimated fair value of these investments is based on net asset values provided by the general partner or investment managers during the year. The College believes that such valuations are appropriate. Because the alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

In accordance with the policy of stating investments at fair value, the change in unrealized appreciation (depreciation) of investment securities is reflected in the accompanying statements of activities. All gains and losses arising from sales, purchases, or other disposition of investments under the control of the College are accounted for on a specific identification basis calculated as of the trade date. Investment gains or losses on pooled endowment assets are distributed quarterly among the individual endowment funds on the basis of the number of units of the pool held by each individual endowment account.

Investments of Endowed Funds

The College has, from time to time, received gifts in which the donor has specified that the gift must be held in perpetuity and only the income from the gift be utilized for general or specific purposes. Such gifts, generally called endowments, are subject to the restrictions of gift instruments of the state of Maryland. See Note 12.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Accounts

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

Allowances for doubtful student loans are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Reserves are placed on any past-due balances under the program until they are turned over to the government.

The allowance for pledges receivable was calculated by review of individual pledge balances for collectability and was based in part on historical collection trends of College donors.

Assets Held in Annuity Trusts

Assets held in annuity trusts consist of gift annuities and charitable remainder trusts. Gift annuities are agreements between donors and the College, which provide that the College pay stipulated amounts for the remaining lives of specific beneficiaries in return for a payment of a specific sum. Generally, donor payments are in excess of the present value of the stipulated payments. These agreements are regulated by the Insurance Commissioner of the state of Maryland. The initial payment is invested separately by the College at the time of receipt; the stipulated amounts are paid from the income, appreciation or corpus of the initial payment, or, if the initial payment has been expended, from the general assets of the College.

Charitable remainder trusts consist of funds subject to irrevocable agreements whereby the assets are made available to the College on the condition that the College pays stipulated amounts, limited to the assets of the trusts, for specified periods of time to designated individuals. Upon the death of the annuitants, the remaining proceeds of the trust revert to the College and may be used as stipulated by the donor. When the College is the trustee of the trusts, the assets held in the trust are recorded at fair value when received and the liability to the annuitant is recorded at the present value of the estimated future payments to be distributed over the annuitant's expected life.

For both annuities and charitable remainder annuity trusts, corresponding liabilities are included in the accompanying statements of financial position. Annually, management undertakes a revaluation of the actuarially determined liability of the annuities. The revaluation resulted in a decrease in annuities payable of $39,844 for FY 2019 and a decrease of $36,767 for FY 2018. New annuity gifts for 2019 and 2018 were $25,000 and $26,107, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Student Loans Receivable, Net

College loan funds held are purpose restricted funds issued as grants per donor instructions. The College continues to collect old loans issued from these funds, and they are stated at actual amounts owed.

Land, Buildings, and Equipment

Land, buildings, and equipment with useful lives greater than one year are stated at cost, or estimated fair market value at date of gift, if donated. Buildings financed in whole or in part by state of Maryland capital grants are stated at the combined cost to the College and the state. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Generally, the cost of maintenance and repairs is charged to expense when incurred, while major acquisitions, additions, renewals, and betterments are capitalized. The College's threshold for capitalizing assets is $2,000 for an individual item and $5,000 for bulk purchases. Depreciation of buildings and equipment is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	20 to 40 years
Furniture and equipment	4 to10 years

Bond Issuance Costs

These costs related to charges incurred upon debt issuances. These costs are being amortized over the term of the respective debt. Accumulated amortization totaled $110,916 and $91,497 at June 30, 2019 and 2018, respectively.

Operations

The accompanying statements of activities distinguish between operating and nonoperating activities. Operating activities principally include all revenues, including student tuition and fees, sales, auxiliary enterprises, government grants and contracts, private gifts and endowment return used for operations, and expenses that are an integral part of the College's educational programs and supporting activities. Nonoperating activities include gains (losses) on disposals of fixed assets or other financial instruments, investment earnings, change in value of interest rate swaps, net assets released from restriction for capital projects and other activities considered to be more of an unusual or nonrecurring nature.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Net Assets Released from Restrictions

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the market risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

The College reports gifts of cash or other assets as net assets with donor restrictions 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 or relieved by the donor, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as Net Assets Released from Restrictions.

The College has been notified of certain intentions to give from donors, which if received, would be used for general operations, program activities, and scholarships. These amounts are not included as a part of pledges receivable due to their conditional nature.

Tuition and Fee Revenue

Tuition and fee revenue consists of all tuition and fee revenue earned net of student discounts. For the years ended June 30, 2019 and 2018, these discounts amounted to $32,371,770 and $31,472,953, respectively.

Fundraising

Included in general institutional expenses for the years ended June 30, 2019 and 2018 were fundraising costs of $1,851,769 and $2,364,001, respectively.

Interest Rate Swaps

The College uses interest rate swaps to manage its exposure to changes in interest rates and to fix the overall cost of its variable rate financing. The interest rate swaps are recorded at fair value in the accompanying financial statements as a liability.

Use of Estimates

The preparation of the financial statements in conformity with U.S. 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. The most significant management estimates and assumptions related to the determination of allowances for doubtful accounts for student accounts, loans, and pledges receivable; alternative investment values; useful lives of fixed assets; actuarial estimates of annuities payable; and the reported fair values of certain of the College’s assets and liabilities. Actual results could differ from those estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

Cash, cash equivalents, and investments are exposed to various risks, such as interest rate, market volatility, and credit. To minimize such risks, the College has a diversified investment portfolio managed by several independent investment managers in a variety of asset classes. The College regularly evaluates its investments including performance thereof. The College maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. The College's cash accounts were placed with high credit quality financial institutions. However, due to inherent risks and potential volatility in investment valuations, the amounts reported in the accompanying financial statements can vary substantially from year to year. It is reasonably possible that changes in investments will occur in the near term and such changes could materially affect the amounts reported in the accompanying financial statements.

Income Tax Status

Under provisions of the Internal Revenue Code Section 501(c)(3) and applicable income tax regulations of the state of Maryland, the College is exempt from taxes on income, other than unrelated business income.

The College recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The College does not believe its financial statements include any material uncertain tax positions.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. ASU 2014-09 will become effective for annual reporting periods beginning after December 15, 2018. The College is currently evaluating the effect of adoption to the financial statements.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made.* ASU 2018-08 clarifies and improves the scope and accounting guidance for contributions received and made. In addition, once a transaction is deemed to be a contribution, this ASU assists in determining whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purpose or timing. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The College is currently evaluating the effect of adoption to the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2020. The College is currently evaluating the effect of adoption to the financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards (Continued)

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt repayment or debt extinguishment costs, contingent considerations payments made after a business combination, and distribution received from equity method investments. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The College is currently evaluating the effect of adoption to the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which revises the nonprofit financial reporting model. ASU 2016-14 provides for additional disclosure and modifies net asset reporting. The standard requires the College to reclassify its net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) into two categories; net assets without donor imposed restrictions and net assets with donor imposed restrictions, among other requirements. The College adopted the provisions of this new standard during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding the liquidity and availability of resources (Note 3) and disclosures related to functional allocation of expenses were expanded (Note 15). With the exception of these disclosures, the changes resulting from the adoption of ASU 2016-14 were applied retrospectively to ensure comparability with the prior year presented.

NOTE 3 LIQUIDITY

The College receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated form such endowments is used to fund scholarships and program support. In addition, the College receives support without donor restrictions, and appropriated earnings from gifts with donor restrictions.

The College considers investment income without donor restrictions, and contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the College's fiscal year.

NOTE 3 LIQUIDITY (CONTINUED)

The College regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

As of June 30, 2019 the College has the following financial assets available for expenditure within one year:

	2019
Financial Assets at Year-End:	
Cash and Cash Equivalents	$ 8,948,542
Accounts Receivable, Net	1,551,193
Pledges Receivable	5,878,649
Investments	250,902,610
	267,280,994
Less: Amounts Not Available for Use Within One Year:	
Net Assets With Donor Restrictions	(251,423,855)
Donor Restricted Net Assets Appropriated for Use Within One Year	12,700,139
Board-Designated Endowment	(7,461,498)
Board-Designated Endowment Appropriated for Use Within One Year	447,838
Subtotal	(245,737,376)
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	$ 21,543,618

The College's board of trustees has designated a portion of its resources to function as endowment and for other purposes which totals $7,461,498 as of June 30, 2019. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the board.

Federal student loans receivable are not considered to be available to meet general expenditures because principal and interest on these loans are used solely to make new loans.

NOTE 4 INVESTMENTS

Investments, assets held in annuity trusts, investments of endowed funds and beneficial interest in assets held by trustee by investment type at June 30 are as follows:

	2019		2018	
	Market	Cost	Market	Cost
Short-Term Investments	$ 4,237,066	$ 4,343,843	$ 2,753,750	$ 2,862,532
Federal, State and Local Government Bonds and Notes	92,711	88,775	60,018	57,781
Corporate Bonds and Notes	35,637,206	34,711,388	39,351,185	37,717,007
Common and Preferred Stock	131,294,902	76,347,207	136,320,843	86,787,957
Hedge Funds	48,612,698	39,657,565	45,367,197	35,861,129
Limited Partnerships	22,629,121	19,038,320	16,480,818	14,159,778
Real Estate	8,398,906	11,309,489	8,571,490	12,903,952
Total	$ 250,902,610	$ 185,496,587	$ 248,905,301	$ 190,350,136

Certain investments and investments of endowed funds are invested in units of pooled investment funds on a market value basis. The pooled investment funds are managed under contract by professional management firms. The fund subscribes to or disposes of units on the basis of the per unit market value at the beginning of the calendar month within which the transaction takes place.

Real property of $6,150,000, classified in investments as real estate, was held for sale during the year ended June 30, 2019. The proceeds from this sale will be reinvested into the endowment. Additionally, $461,500 of real estate in operating investments was held for sale during the year ended June 30, 2019.

During the years ended June 30, 2019 and 2018, the net realized gains on the investment funds were $5,464,998 and $6,801,138, respectively. Net unrealized gains were $6,850,857 and $11,620,665 at June 30, 2019 and 2018, respectively.

NOTE 5 ACCOUNTS RECEIVABLE, NET

A summary of accounts receivable at June 30, is as follows:

	2019	2018
Students	$ 343,495	$ 310,811
Conferences	167,430	90,990
Employees	4,402	5,350
Bequests	-	287,000
Grants	753,938	295,495
Other	305,973	109,231
	1,575,238	1,098,877
Less: Allowance	(24,045)	(21,757)
Total	$ 1,551,193	$ 1,077,120

NOTE 6 PLEDGES RECEIVABLE, NET

At June 30, contributors to the College have unconditionally promised to give as follows:

	2019	2018
Pledges Receivable	$ 6,593,493	$ 8,470,028
Less: Discount to Present Value at Rates from 3.4% - 4.46%	(405,582)	(299,747)
	6,187,911	8,170,281
Less: Allowance for Doubtful Accounts	(309,262)	(405,440)
Pledges Receivable, Net	$ 5,878,649	$ 7,764,841

	2019	2018
Gross Contributions to be Collected:		
Within One Year	$ 3,461,995	$ 2,474,188
One to Five Years	3,131,498	5,995,840
Total	$ 6,593,493	$ 8,470,028

NOTE 7 STUDENT LOANS RECEIVABLE, NET

At June 30, 2019 and 2018, student loans consisted of the following:

	2019	2018
Institutional Loan Program	$ 73,659	$ 86,566
Less: Allowance for Doubtful Accounts	(5,156)	(6,059)
Total	$ 68,503	$ 80,507

At June 30, 2019 and 2018, the following amounts were past due under student loan programs:

	0-60 Days Past Due	60-90 Days Past Due	90+ Days Past Due	Total Past Due
June 30, 2019	$ 16,183	$ -	$ 57,476	$ 73,659
June 30, 2018	$ 33,225	$ -	$ 53,341	$ 86,566

NOTE 8 LAND, BUILDINGS, AND EQUIPMENT, NET

	2019	2018
Land Improvements	$ 9,538,093	$ 9,443,969
Buildings	224,597,452	215,755,852
Furniture and Equipment	34,167,214	27,897,870
	268,302,759	253,097,691
Less: Accumulated Depreciation	(110,439,867)	(102,543,719)
	157,862,892	150,553,972
Land	11,408,530	11,422,877
Construction in Progress	15,720,073	10,893,897
Total	$ 184,991,495	$ 172,870,746

Depreciation expense was $8,767,829 and $8,769,487 for the years ended June 30, 2019 and 2018, respectively.

Construction in progress at June 30, 2019 consists of costs incurred to rehabilitate several residential dorms and to construct an academic building. Estimated outstanding construction contract commitments at June 30, 2019 were $4,860,419 and will be funded through contributions or operating sources.

As of June 30, 2019, $1,742,709 of land and buildings were held for sale. The amount is related to the fair value of Lamotte Property and two homes located on Washington Avenue. No assets were held for sale as of June 30, 2018.

NOTE 9 BONDS AND FINANCING ARRANGEMENTS

Bonds and financing arrangements consist of the following at June 30:

Description	2019	2018
Town of Chestertown, Maryland Economic Development Refunding Revenue Bonds, Washington College Project, 2013 Series:		
Bonds payable used to finance the design, construction, renovation and outfitting of the new academic building known as Cromwell Hall and the new residential housing known as Corsica Hall. Interest at a fixed rate of 3.476% is paid monthly. Series principal payments are due monthly in graduated amounts commencing at $39,000 through June 2046.	$ 18,872,000	$ 19,381,000
Bonds payable used to finance the design, construction, renovation and outfitting of the Gibson Performing Arts Center, Hodson Hall, the Chester and Sassafras dormitories and to advance the refunds of the 1997, 2004 and 2008A and 2010 bonds. Interest at a variable rate of 65% of (LIBOR plus 1.1%) is paid monthly. Interest rate at June 30, 2018 was 2.45%. Series principal payments are due annually in graduated amounts commencing at $1,040,000 on March 1, 2014 through March 2038.	46,249,000	47,960,000
	65,121,000	67,341,000
Less: Unamortized Debt Issuance Costs	(471,637)	(491,055)
Total Long-Term Debt, Net	$ 64,649,363	$ 66,849,945

The College expensed interest of $1,913,365 and $1,647,142 under financing arrangements for the years ended June 30, 2019 and 2018, respectively.

Annual debt service requirements for the above debt are as follows:

Year Ending June 30,	Principal
2020	$ 2,170,000
2021	2,306,000
2022	2,411,000
2023	2,515,000
2024	2,625,000
Thereafter	53,094,000
Total	$ 65,121,000

NOTE 9 BONDS AND FINANCING ARRANGEMENTS (CONTINUED)

Under the terms of the Town of Chestertown, Maryland Revenue Bond, and the Town of Chestertown, Maryland Economic Development Refunding Revenue Bond agreements, the College has granted the issuer of the bonds a claim on and collateral interest in all of its gross revenues (as defined in the agreements). The loan agreements also contain covenants and prohibitions which, among other things, limit the College's ability to incur additional indebtedness and contain an acceleration clause in the event of default. Management is not aware of any violations of the covenants. In July, 2020, $46,249,000 of the variable rate portion of bond debt will be renegotiated and/or refinanced. Additionally, $18,872,000 of the fixed rate portion of the bond is set for review in 2025.

NOTE 10 INTEREST RATE SWAP AGREEMENTS

The College has entered into interest rate swap agreements in order to hedge interest rate exposure on the underlying variable rate revenue bonds. The swap agreements had a fair value liability of $7,207,066 and $5,223,490 at June 30, 2019 and 2018, respectively, which is reflected in the statements of financial position. A noncash loss of $1,983,576 and a noncash gain of $2,272,025 for the years ended June 30, 2019 and 2018, respectively, are included in the statements of activities, under nonoperating activities. The swap agreements contain certain derivative risks including tax and/or basis risk, counterparty risk and amortization risk, among others.

	Notional Amount	Start Date	Maturity Date	Fixed Rate	Floating Rate*
PNC Bank	$ 22,130,000	9/17/2010	3/1/2038	3.20%	65% of USD-LIBOR-BBA
Royal Bank	22,130,000	5/6/2008	3/1/2038	3.20%	65% of USD-LIBOR-BBA

*Monthly Rate

The College expensed interest of $716,191 and $1,009,553 under the interest rate swap agreements for the years ended June 30, 2019 and 2018, respectively.

NOTE 11 NET ASSETS

The composition of net assets at June 30 was as follows.

	2019	2018
Net Assets Without Donor Restrictions:		
Board-Designated Endowment	$ 7,461,498	$ 7,745,376
Undesignated	115,154,099	109,337,233
	$ 122,615,597	$ 117,082,609
Net Assets With Donor Restrictions:		
Purpose Restrictions:		
Scholarships	$ 601,633	$ 2,009,073
Support for the College	20,426,984	27,395,801
Time Restrictions:		
Net Pledge Receivables Without Donor Restrictions	1,171,427	-
Spending Policy		
Investment in Perpetuity	154,263,651	148,667,126
Endowment Earnings	74,960,160	75,741,790
Total	$ 251,423,855	$ 253,813,790

Pledges reflect the amount remaining to be collected on contributions in which the donor has relieved all donor imposed purpose restrictions. Although the purpose restriction has been relieved by the donor the amounts are expected to be received over a period of time and this transfer remains restricted until the pledge payment has been received.

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by the respective donors. During the years ended June 30, 2019 and 2018, purpose restrictions were accomplished as follows:

	2019	2018
General Operations	$ 514,796	$ 609,404
Financial Aid	9,461,419	9,132,447
Instruction and Research	7,699,509	6,560,058
Student Services	1,038,140	781,647
Restrictions Relieved by the Donor	638,573	-
Total	$ 19,352,437	$ 17,083,556
Capital Expenditures	$ 7,387,006	$ 299,200

NOTE 12 ENDOWMENTS

As required by U.S. GAAP, 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.

The College's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as quasi-endowments. The endowment assets are recorded on the statements of financial position in investments of endowed funds, portions of investments held for sale, and portions of assets held in annuity trusts and investments.

Interpretation of Relevant Law

The board of trustees of the College has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (UPMIFA) as establishing a standard of conduct in managing and investing endowment funds. As a result of this interpretation, the College classifies as net assets with donor restrictions (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. This is regarded as the "principal value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is regarded as "net appreciation" is classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the College's spending policy.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "principal value." There were no such deficiencies as of June 30, 2019 and 2018.

Endowment Investment Policy

The College has adopted an investment policy that is intended to provide a predictable stream of funding to programs from its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity as well as board-designated funds. Under this approach, as approved by the Investment Committee of the board of trustees, the endowment assets are invested in a manner that is intended to produce results that equal the total of the amount drawn annually for operations plus the rate of inflation plus investment management fees. The College expects its endowment funds, over time, to provide an average rate of return of approximately 8-1/2% annually. Actual returns in any given year may vary from this amount.

NOTE 12 ENDOWMENTS (CONTINUED)

Endowment Spending Policy

Unless otherwise specified by law or agreement with the donor, the annual amount of endowment assets and earnings available to support the operations of the College during the fiscal year shall be 5% of the average of the assets of the endowment as of December 31 of each of the three preceding fiscal years. The Board has elected a 6.5% draw for June 30, 2019 and 2018 and for the trailing three preceding year average balance for donor-restricted endowed funds absent explicit donor stipulations to the contrary. The Board has approved a 6.5% draw for the upcoming June 30, 2020 fiscal year.

Strategies Employed for Achieving Objectives

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). Previously, the College determined that best governance practice was not to internally manage the investment portfolio and that outsourcing of the management was clearly the best course. A consultant was hired to assist the Investment Committee of the Board of Directors in this process. Different managers have been employed over the years and have included a wide range of investments, including alternative strategies. The rationale for including alternative strategy managers for the College's portfolio is to reduce overall volatility while providing equity-like returns. Alternative asset classes have historically demonstrated lower volatility on a stand-alone basis compared to traditional asset classes. Additionally, they have had low correlations, thus providing diversification benefits at the total fund level. See Note 2 for more detail on how these are valued. Appropriations and income distributed from endowment assets are shown net of gains and losses in the face of the financial statements.

NOTE 12 ENDOWMENTS (CONTINUED)

Endowment Fund Activity

	Without Donor Restrictions	With Donor Restrictions	Total
June 30, 2019			
Net Assets, Beginning of Year	$ 7,745,376	$ 224,408,916	$ 232,154,292
Investment Return*			
Investment Income	-	432	432
Net Realized Gains	626,103	10,066,876	10,692,979
Net Unrealized Gains	(25,216)	1,124,760	1,099,544
Net Investment Gains	600,887	11,192,068	11,792,955
Change in Value of Annuities	-	20,776	20,776
Contributions	-	5,575,749	5,575,749
Income Distributed or Drawn on Endowments	(884,765)	(11,973,698)	(12,858,463)
Net Assets, End of Year	$ 7,461,498	$ 229,223,811	$ 236,685,309
Donor-Restricted Endowment Funds	$ -	$ 229,223,811	$ 229,223,811
Board-Designated Funds	7,461,498	-	7,461,498
Total	$ 7,461,498	$ 229,223,811	$ 236,685,309

	Without Donor Restrictions	With Donor Restrictions	Total
June 30, 2018			
Net Assets, Beginning of Year	$ 7,567,078	$ 210,008,274	$ 217,575,352
Investment Return*			
Investment Income	-	243	243
Net Realized Gains	395,523	6,724,663	7,120,186
Net Unrealized Gains	721,274	10,899,391	11,620,665
Net Investment Gains	1,116,797	17,624,297	18,741,094
Change in Value of Annuities	-	24,687	24,687
Contributions	-	8,253,377	8,253,377
Income Distributed or Drawn on Endowments	(938,499)	(11,501,719)	(12,440,218)
Net Assets, End of Year	$ 7,745,376	$ 224,408,916	$ 232,154,292
Donor-Restricted Endowment Funds	$ -	$ 224,408,916	$ 224,408,916
Board-Designated Funds	7,745,376	-	7,745,376
Total	$ 7,745,376	$ 224,408,916	$ 232,154,292

*The portion of a donor-restricted endowment fund that is regarded as “net appreciation” is classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the College’s spending policy.

NOTE 13 FAIR VALUE MEASUREMENTS

The College has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. 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 hierarchy are described below:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Financial assets and liabilities whose values are based on one or more of the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in non-active markets;
- pricing models whose inputs are observable for substantially the full term of the asset or liability; or
- pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The College’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that the College has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

	June 30, 2019				June 30, 2018			
	Quoted Priced in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance	Quoted Priced in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
ASSETS								
Short-Term Investments	$ 4,237,066	$ -	$ -	$ 4,237,066	$ 2,753,750	$ -	$ -	$ 2,753,750
Federal, State and Local Government Bonds and Notes	92,711	-	-	92,711	60,018	-	-	60,018
Corporate Bonds and Notes	26,248,224	-	-	26,248,224	15,900,653	-	-	15,900,653
Common and Preferred Stock	42,340,002	-	-	42,340,002	45,413,375	-	-	45,413,375
Real Estate	-	-	8,376,519	8,376,519	-	-	7,974,918	7,974,918
Total Assets	$ 72,918,003	$ -	$ 8,376,519	81,294,522	$ 64,127,796	$ -	$ 7,974,918	72,102,714
Investments Measured at Fair Value Using Net Asset Value Per Share								
Hedge Funds				48,612,698				45,367,197
Commingled Funds Stock				88,954,900				23,450,532
Commingled Funds Bonds				9,388,982				90,907,469
Limited Partnerships				22,629,121				16,480,818
Real Estate, LPs				22,387				596,571
Total Investments Measured at Fair Value Using Net Asset Value Per Share				169,608,088				176,802,587
Total Assets				$ 250,902,610				$ 248,905,301
LIABILITIES								
Interest Rate Swaps	$ -	$ 7,207,066	$ -	$ 7,207,066	$ -	$ 5,223,490	$ -	$ 5,223,490

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Real estate assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment or a change in the amount of previously recorded impairment. No such impairment has been recorded for years ended June 30, 2019 and 2018. Appraisals on these properties have been obtained in years 2015-2019

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2019 are as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Distressed/Credit [a]	$ 2,598,733	$ -	annually	90 days
Diversified Arbitrage [b]	3,438,732	-	quarterly	92 days
Diversified Arbitrage [b]	27,996	-	n/a	awaiting liquidation
Diversified Arbitrage [b]	3,790,958	-	quarterly	90 days
Event-driven [c]	4,710,969	-	quarterly	65-90 days
Event-driven [c]	3,061,388	-	annually	90 days
Event-driven [b]	2,705,335	-	annually	44 days
Global Macro [d]	14,428	-	n/a	awaiting liquidation
Global Macro [d]	2,609,461	-	monthly	3 days
Global/Regional Long/Short [e]	10,796,356	-	annually	45 Days
Global/Regional Long/Short [e]	2,689,816	-	annually	60 days
Global/Regional Long/Short [e]	92,596	-	n/a	awaiting liquidation
Global/Regional Long/Short [e]	2,544,816	-	monthly	180 days
Opportunistic [f]	514,000	-	n/a	awaiting liquidation
U.S. Long/Short [g]	3,535,488	-	monthly	62 days
U.S. Long/Short [g]	5,481,626	-	quarterly	45 days
U.S. Equity [h]	44,956,718		quarterly	60
Global Equity ex US [h]	11,608,533	-	monthly	10
Global Equity ex US [h]	15,358,486	-	bi-monthly	15
Emerging Markets [h]	9,317,594	-	monthly	30
Emerging Markets [h]	3,875,880	-	daily	1
Natural Resources [h]	3,837,689	-	weekly	7
U.S. Bonds [i]	9,388,982	-	daily	1
Real Estate LPs [j]	22,387	-	n/a	n/a
Private Equity [k]	22,629,121	20,790,609	n/a	n/a
	$ 169,608,088	$ 20,790,609		

a. This class includes investments in hedge funds that generally invest in securities, bank debt, and trade obligations of companies or structures that have filed Chapter 11 or are in other ways in financial distress. In addition, the managers may invest in various arbitrage strategies. The fair values have been estimated using the net asset value (NAV) per share of the investments.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

b. This class includes investments in hedge funds that pursue multiple strategies in an effort to diversify risks and reduce volatility. Some of the strategies that managers in this class invest in include merger arbitrage, convertible arbitrage, fixed income arbitrage, statistical arbitrage, distressed credit, and long/short equity. The fair values have been estimated using the net asset value (NAV) per share of the investments.

c. This class includes investments in hedge funds. These funds typically invest in publically announced corporate events and other special situations where the outcome is largely dependent of an uncorrelated event within the broad markets. The managers tend to focus on merger, corporate restructuring, corporate takeovers, and spin-offs, with the two main strategies being merger arbitrage and distressed securities.

d. This class is an investment strategy that seeks to generate returns from: 1) macroeconomic trends and shifts in the world's economies, 2) political developments that have an economic impact, and 3) changes of global supply and demand for physical and financial resources. Macro managers implement their portfolios by investing long and/or short positions (e.g., equities, fixed income, currencies, and commodities) in any market around the world, while taking directional and/or relative value positions.

e. This class includes investments in hedge funds that take long and short positions primarily in common stock of companies based in the U.S. and/or outside U.S. Management of the funds has the ability to shift investments from value to growth strategies, from small to larger capitalizations stocks, and from a net long to a net short position.

f. This class includes investments in hedge funds that primarily take long and short positions in common stock of companies based in the U.S. and/or outside of the U.S. The managers in this class may also invest in an opportunistic basis in credit and other arbitrage strategies.

g. This class includes investments in hedge funds that take long and short positions primarily in common stock of companies based in the U.S. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to larger capitalization stocks, and from a net long to a net short position.

h. This class includes funds of publicly traded U.S. and/or outside U.S. stocks.

i. This class includes various marketable fixed income assets.

j. This class includes real estate limited partnerships.

k. This class includes investments in global secondary purchases of venture capital, leveraged buyout and other private equity assets.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The following provides a brief description of the types of recurring financial instruments the College holds, the methodology for estimating fair value, and the level within the hierarchy of the estimate.

Investments

Short-Term Investments – These investments are cash and low risk money market funds provided as sweep vehicles by the custodian bank. The College considers these investments Level 1.

Federal, State and Local Government Bonds and Notes – These are securities or mutual funds which invest in securities which are traded on a recognized liquid exchange. The closing price of the security as of the reporting date is used to determine fair value. These are considered Level 1 inputs in the hierarchy.

Corporate Bonds and Notes – These are securities or mutual funds which invest in bonds or notes which are traded on a recognized liquid exchange. The closing price of the security as of the reporting date is used to determine fair value. This is considered a Level 1 value in the hierarchy. In some instances, where trading volume is thin or nonexistent, assets may be measured at Net Asset Value (NAV) and therefore, are not presented in the hierarchy.

Common and Preferred Stock – These are securities or mutual funds which invest in common and preferred stock which are traded on a recognized liquid exchange. The closing price of the security as of the reporting date is used to determine fair value. This is considered a Level 1 value in the hierarchy. In some instances, where trading volume is thin or non-existent, assets may be measured at NAV and therefore, are not presented in the hierarchy.

Hedge Funds – These are investments in pools of assets whose underlying values and composition of both long and short positions determine the fair market value of the investment. The reporting entity has the ability to redeem its investment with the investee at NAV per share (or its equivalent) at the measurement date.

Real Estate – NAV are those represented by an investment in a mutual fund which invests in real estate and real asset commodities such as energy. Level 3 assets are direct investments in real property and investment in limited partnerships whose value is based on the underlying real estate asset.

Limited Partnerships – Limited partnerships are investments in pools of assets whose underlying values and composition determine the fair market value of the investment either as reported by the general partner or for certain investments, the reporting entity has the ability to redeem its investment with the investee at NAV per share (or its equivalent) at the measurement date.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

Investments (Continued)

Interest Rate Swap – These are measured by alternative pricing sources with reasonable levels of price transparency in markets that may not be continuously active. Based on the complex nature of interest rate swap agreements, these instruments trade in markets that are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do however have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair value. These characteristics classify interest rate swap agreements as a Level 2 input.

The College's Investment Committee, which consists of members of the College's senior management and board of visitors and governors, is responsible for valuation policies and procedures for the College's Level 3 investments. Interaction occurs formally on a biannual basis and informally as needed. The Investment Committee meets at least on a quarterly basis to evaluate the valuation methodology used for the Level 3 investments.

NOTE 14 RETIREMENT BENEFIT PLANS

The College participates in defined contribution retirement annuity plans sponsored by the Teacher's Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Retirement benefits are provided to eligible faculty and administrative personnel through direct payments to these plans. For eligible employees, the College contributes a portion of the employee's salary to the plans based on the employee's contribution. Contributions made under these plans are fully vested in employees' accounts, and retirement payments are limited to the amount of the annuities purchased. Costs charged to current operations for the College's portion of the contributions to the plans were $1,683,010 and $1,623,517 for the years ended June 30, 2019 and 2018, respectively.

NOTE 15 EXPENSE ALLOCATION

The College allocates interest and amortization on indebtedness based on loan proceeds borrowed for construction of respective buildings. Operations and maintenance of plant consists of insurance, dues, maintenance, and utilities applied to square footage of all buildings. Salaries and benefits are allocated based on job function and allocation of time spent between departments. Expenses reported in the financial statements are classified among program services and management and general services for the year ended June 30, 2019 as follows. Comparative totals for the year ended June 30, 2018 are presented in accordance with the adoption of ASU 2016-14.

	Program Services						Supporting Services				
	Instruction	Academic Support-Library	Academic Support-Other	Student Services	Institutional Support	Subtotal	Auxiliary Enterprise	General Administrative	Subtotal	2019 Total	2018 Total
Salaries and Benefits	$ 15,642,070	$ 813,011	$ 1,538,734	$ 7,199,730	$ 6,591,743	$ 31,785,288	$ 2,242,948	$ 2,626,239	$ 4,869,187	$ 36,654,475	$ 38,274,163
Contractual Services	624,920	130	42,146	1,370,365	1,848,500	3,886,061	233,226	261,226	494,452	4,380,513	4,494,262
Supplies	442,376	8,626	41,786	346,132	302,040	1,140,960	162,311	20,757	183,068	1,324,028	1,537,739
Travel	688,085	2,704	37,327	897,649	79,846	1,705,611	24,823	30,187	55,010	1,760,621	1,840,928
Professional Fees	15,850	-	1,100	45,413	105,377	167,740	359,777	3,489	363,266	531,006	790,695
Rent	111,403	-	-	-	57,742	169,145	296,460	-	296,460	465,605	455,511
Other Operating Expenses	1,964,083	539,919	81,515	2,409,855	989,245	5,984,617	3,649,316	145,991	3,795,307	9,779,924	10,480,613
Plant Operation and Maintenance	625,185	121,810	32,947	347,853	1,029,224	2,157,019	475,652	18,843	494,495	2,651,514	2,357,574
Depreciation	2,679,575	289,696	5,377	1,305,766	1,778,672	6,059,086	2,683,015	25,728	2,708,743	8,767,829	8,754,411
Interest and Amortization	1,748,323	-	-	-	-	1,748,323	900,651	-	900,651	2,648,974	2,676,113
Total	$ 24,541,870	$ 1,775,896	$ 1,780,932	$ 13,922,763	$ 12,782,389	$ 54,803,850	$ 11,028,179	$ 3,132,460	$ 14,160,639	$ 68,964,489	$ 71,662,009

NOTE 16 SUBSEQUENT EVENTS

The College evaluated its June 30, 2019 financial statements for subsequent events through November 22, 2019. As of August 26, 2019, the College entered into an agreement of sale for the real property known as Lot 1 – 13.209 AC W/S Morgnec Rd, Chestertown, Maryland 21620 for a purchase price of $1,500,000. The purchaser has four months to determine the feasibility of the property and during this time if the purchaser determines that any aspect of the property is not satisfactory then the purchaser can terminate the agreement.

As of June 28, 2019, a sale of agreement was entered into for the property known as Stepne Farms for a purchase price of $6,500,000. Closing is scheduled to take place on January 3, 2020.

As of June 28, 2019, the College had received a conditional pledge of property, appraised by the donor with a value of $7,500,000. This property is conditional upon a signed gift agreement being agreed upon and satisfactory to both parties. No mutual gift agreement has been signed as of November 22, 2019 and this property remains conditional upon a signed gift agreement.