



Financial Statements

Lesley University

June 30, 2019 and 2018



LESLEY UNIVERSITY

Financial Statements

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Independent Auditors' Report

The Board of Trustees
Lesley University
Cambridge, Massachusetts

We have audited the accompanying financial statements of Lesley University (the "University"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses (2019) 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 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 Lesley University 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.

Emphasis of Matters

As discussed in Note 1 to the financial statements, in 2019, the University adopted Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Maye Heyman McCann P.C.

October 2, 2019
Boston, Massachusetts

LESLEY UNIVERSITY

Statements of Financial Position

June 30,

	2019	2018
Assets		
Cash and cash equivalents	\$ 4,493,584	\$ 2,754,325
Students' accounts receivable, net	4,192,419	4,224,354
Accounts, grants and interest receivable	1,273,438	1,438,630
Prepaid expenses and other assets	2,153,765	3,112,102
Debt service reserve with trustee	2,740,783	2,690,494
Unexpended bond proceeds	-	1,685,467
Contributions receivable, net	4,795,563	5,017,785
Investments held on behalf of employees for retirement	1,384,829	1,431,276
Student loans receivable, net	1,460,154	1,679,354
Property and equipment, net	210,368,248	185,739,977
Investments and trusts	<u>189,281,127</u>	<u>190,092,197</u>
Total assets	\$ <u>422,143,910</u>	\$ <u>399,865,961</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 11,123,994	\$ 9,995,145
Deferred revenue and advance payments	11,411,703	12,369,043
Annuities payable	2,889,931	2,812,885
Obligations to employees for retirement	1,384,829	1,431,726
Capital lease obligation	175,246	248,502
Bonds, notes and loans payable, net	119,720,381	97,940,271
U.S. government loan advances	<u>1,537,954</u>	<u>1,506,516</u>
Total liabilities	<u>148,244,038</u>	<u>126,304,088</u>
Net assets:		
Without donor restrictions	242,112,155	237,904,805
With donor restrictions	<u>31,787,717</u>	<u>35,657,068</u>
Total net assets	<u>273,899,872</u>	<u>273,561,873</u>
Total liabilities and net assets	\$ <u>422,143,910</u>	\$ <u>399,865,961</u>

LESLEY UNIVERSITY

Statement of Activities

Year Ended June 30, 2019
(with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenues:				
Tuition, fees, room and board (net of discount of \$19,435,792 and \$16,683,536, respectively)	\$ 85,422,371	\$ -	\$ 85,422,371	\$ 85,163,217
Government grants and contracts	1,399,058	-	1,399,058	1,344,195
Private grants and contracts	-	140,660	140,660	243,638
Auxiliary enterprises	4,764,390	-	4,764,390	4,003,284
Contributions	923,811	2,897,688	3,821,499	2,884,292
Other investment income (loss)	183,353	-	183,353	34,895
Other income	801,121	-	801,121	590,186
Amounts reclassified under spending formula	8,450,000	1,007,344	9,457,344	9,197,011
Amounts reclassified under board designations for operating needs	4,653,173	-	4,653,173	3,289,579
Net assets released from restrictions	3,091,820	(3,091,820)	-	-
Total operating revenues	109,689,097	953,872	110,642,969	106,750,297
Operating expenses:				
Instruction	41,768,053	-	41,768,053	40,861,487
Academic support	14,132,892	-	14,132,892	13,612,510
Student services	20,511,637	-	20,511,637	20,143,162
Management and general	16,959,830	-	16,959,830	16,406,879
Fundraising	2,405,693	-	2,405,693	1,937,269
Student aid	452,988	-	452,988	386,710
Auxiliary enterprises	13,899,443	-	13,899,443	13,981,589
Total operating expenses	110,130,536	-	110,130,536	107,329,606
Change in net assets from operating activities	(441,439)	953,872	512,433	(579,309)
Nonoperating activities:				
Investment return, net of fees	6,162,656	889,384	7,052,040	15,370,188
Amounts reclassified under spending formula	(8,450,000)	(1,007,344)	(9,457,344)	(9,197,011)
Clarification of donor intent	2,749,574	(2,749,574)	-	-
Contributions (capital improvements, plant)	-	2,837	2,837	103,639
Net assets released from restrictions (capital improvements, plant)	1,987,001	(1,987,001)	-	-
Amounts reclassified under board designations for operating needs	(4,653,173)	-	(4,653,173)	(3,289,579)
Loss on defeasance of debt	-	-	-	(104,487)
Gain on sale of property and equipment	6,852,731	-	6,852,731	-
Gain on assets held with outside trustees	-	28,475	28,475	16,526
Change in net assets from nonoperating activities	4,648,789	(4,823,223)	(174,434)	2,899,276
Change in net assets	4,207,350	(3,869,351)	337,999	2,319,967
Net assets, beginning of the year	237,904,805	35,657,068	273,561,873	271,241,906
Net assets, end of the year	\$ 242,112,155	\$ 31,787,717	\$ 273,899,872	\$ 273,561,873

LESLEY UNIVERSITY

Statement of Activities

Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2018
Operating revenues:			
Tuition, fees, room and board (net of discount of \$16,683,536)	\$ 85,163,217	\$ -	\$ 85,163,217
Government grants and contracts	1,344,195	-	1,344,195
Private grants and contracts	-	243,638	243,638
Auxiliary enterprises	4,003,284	-	4,003,284
Contributions	1,181,657	1,702,635	2,884,292
Other investment income (loss)	34,895	-	34,895
Other income	590,186	-	590,186
Amounts reclassified under spending formula	8,321,776	875,235	9,197,011
Amounts reclassified under board designations for operating needs	3,289,579	-	3,289,579
Net assets released from restrictions	2,798,622	(2,798,622)	-
Total operating revenues	106,727,411	22,886	106,750,297
Operating expenses:			
Instruction	40,861,487	-	40,861,487
Academic support	13,612,510	-	13,612,510
Student services	20,143,162	-	20,143,162
Management and general	16,406,879	-	16,406,879
Fundraising	1,937,269	-	1,937,269
Student aid	386,710	-	386,710
Auxiliary enterprises	13,981,589	-	13,981,589
Total operating expenses	107,329,606	-	107,329,606
Change in net assets from operating activities	(602,195)	22,886	(579,309)
Nonoperating activities:			
Investment return, net of fees	13,553,160	1,817,028	15,370,188
Amounts reclassified under spending formula	(8,321,776)	(875,235)	(9,197,011)
Contributions (capital improvements, plant)	-	103,639	103,639
Net assets released from restrictions (capital improvements, plant)	2,171,667	(2,171,667)	-
Amounts reclassified under board designations for operating needs	(3,289,579)	-	(3,289,579)
Loss on defeasance of debt	(104,487)	-	(104,487)
Gain on assets held with outside trustee	-	16,526	16,526
Change in net assets from nonoperating activities	4,008,985	(1,109,709)	2,899,276
Change in net assets	3,406,790	(1,086,823)	2,319,967
Net assets, beginning of the year	234,498,015	36,743,891	271,241,906
Net assets, end of the year	\$ 237,904,805	\$ 35,657,068	\$ 273,561,873

LESLEY UNIVERSITY

Statement of Functional Expenses

Year Ended June 30, 2019
(with comparative totals for 2018)

	2019							2018	
	Instruction	Academic Support	Student Services	Management and General	Fundraising	Student Aid	Auxiliary Enterprises	Total	Total
Salaries and wages	\$ 28,204,816	\$ 8,740,787	\$ 7,027,678	\$ 6,945,109	\$ 1,510,963	\$ 26,355	\$ 653,127	\$ 53,108,835	\$ 53,780,909
Employee benefits and payroll taxes	5,776,925	2,147,865	1,773,676	1,864,615	386,396	2,016	163,388	12,114,881	11,405,603
Fees for services	13	6	6	886,579	-	-	8,995	895,599	834,916
Advertising and promotions	12,993	5,432	897,395	30,395	737	-	-	946,952	788,192
Office expenses	344,684	218,735	698,030	33,093	163,940	202	37,117	1,495,801	1,455,427
Information technology	25,783	480,490	313,586	1,189,865	104,351	-	1,182	2,115,257	1,892,982
Occupancy	336,229	35,737	56,226	92,506	9,062	-	2,319,764	2,849,524	3,584,984
Travel	788,890	287,908	365,737	164,958	140,100	-	5,811	1,753,404	1,708,922
Conferences, meetings	60,359	100,610	49,156	19,146	5,300	-	735	235,306	210,402
Insurance	-	-	960	614,395	-	-	158,657	774,012	726,739
Dining services	-	-	-	-	-	-	4,086,457	4,086,457	4,144,223
Custodial services	-	-	-	-	-	-	1,434,601	1,434,601	1,467,777
Security services	-	-	-	-	-	-	651,585	651,585	494,654
Books, memberships and dues	131,366	300,924	113,095	170,303	16,397	13,000	1,516	746,601	745,829
Student aid	-	-	-	-	-	402,807	-	402,807	357,866
Other expenses	2,650,093	506,275	618,158	2,744,513	68,447	8,608	580,514	7,176,608	6,894,299
Depreciation and amortization	1,125,890	428,651	2,817,404	703,669	-	-	2,283,453	7,359,067	6,756,674
Interest	825,665	314,349	2,066,129	572,983	-	-	1,446,910	5,226,036	4,188,877
Plant	1,484,347	565,123	3,714,401	927,701	-	-	65,631	6,757,203	5,890,331
Total functional expenses	\$ 41,768,053	\$ 14,132,892	\$ 20,511,637	\$ 16,959,830	\$ 2,405,693	\$ 452,988	\$ 13,899,443	\$ 110,130,536	\$ 107,329,606

LESLEY UNIVERSITY
Statements of Cash Flows

Years Ended June 30,

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 337,999	\$ 2,319,967
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	7,359,067	6,756,674
Amortization, net	(373,217)	(311,572)
Gain on sale of property and equipment	(6,852,731)	-
Loss on defeasance of debt	-	104,487
Provision for uncollectible amounts	428,630	237,185
Net realized and unrealized gains on investments and trusts	(5,482,578)	(13,730,988)
Receipts of long-term contributions	(242,183)	(598,306)
Changes in:		
Students' accounts receivable	(396,695)	(577,227)
Accounts, grants and interest receivable	165,192	(276,367)
Prepaid expenses and other assets	958,337	238,030
Contributions receivable	222,222	5,168,349
Investments held on behalf of employees for retirement	46,447	(219,277)
Accounts payable and accrued expenses	2,409,580	1,539,492
Obligations to employees for retirement	(46,897)	219,727
Annuities payable	77,046	(193,139)
Deferred revenue and advance payments	(957,340)	835,108
	<u>(2,347,121)</u>	<u>1,512,143</u>
Net cash provided by (used in) operating activities	(2,347,121)	1,512,143
Cash flows from investing activities:		
Purchase of property and equipment, net	(35,034,071)	(6,118,541)
Proceeds from sale of property and equipment	8,618,733	-
Purchase of investments	(52,561,397)	(49,903,362)
Sale of investments	58,535,103	60,307,474
Student loans issued	-	(204,104)
Cash collections on student loans	219,200	251,699
	<u>(20,222,432)</u>	<u>4,333,166</u>
Net cash provided by (used in) investing activities	(20,222,432)	4,333,166
Cash flows from financing activities:		
Proceeds from issuance of loan	25,000,000	-
Payments on bonds and notes payable	(2,808,000)	(3,480,854)
Loan issuance costs	(38,673)	-
Payments on line of credit	-	(2,900,000)
Payments on capital lease obligations	(73,256)	(57,231)
Increase in U.S. government loan advances	31,438	33,091
Receipt of long-term contributions	562,125	782,375
Decrease in debt service reserve with trustees and unexpended bond proceeds	1,635,178	1,991,268
	<u>24,308,812</u>	<u>(3,631,351)</u>
Net cash provided by (used in) financing activities	24,308,812	(3,631,351)
Net increase in cash and cash equivalents	1,739,259	2,213,958
Cash and cash equivalents, beginning of year	<u>2,754,325</u>	<u>540,367</u>
Cash and cash equivalents, end of year	\$ <u>4,493,584</u>	\$ <u>2,754,325</u>

See accompanying notes to the financial statements.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Lesley University (the "University") is a private, not-for-profit, co-educational institution of higher education enrolling approximately 6,700 students in professional, undergraduate and graduate degree programs. The University's campus lies within Cambridge, Massachusetts and is comprised of four schools: the College of Liberal Arts and Sciences, the College of Art and Design, the Graduate School of Education, and the Graduate School of Arts and Social Sciences; and the Threshold Program. The University also offers online degree programs. The University has over one hundred programs of study and draws its student population primarily from Massachusetts and the New England region of the United States.

The University is primarily accredited by the New England Commission of Higher Education, Inc., among other accrediting bodies. The University participates in student financial aid programs sponsored by the United States Education Department ("DOE") and to a much lesser extent the Commonwealth of Massachusetts, and other states within the United States of America. These programs facilitate the payment of tuition and other expenses for eligible students when they are determined to be eligible as evaluated by the University's financial aid office. Such determinations are subject to after the fact review by funders.

The University engages students in transformative education through active learning, scholarly research, diverse forms of artistic expression, and the integration of rigorous academics with practical, professional experience, leading to meaningful careers and continuing lifelong learning. The University prepares socially responsible graduates with the knowledge, skills, understanding, and ethical judgment to be catalysts shaping a more just, humane, and sustainable world.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America which require that the University report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

This net asset class includes resources for general use and is not subject to donor restrictions. The Board of Trustees has designated from net assets without donor restrictions amounts to function as endowment. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation and amortization and related debt. The University also has designated certain funds to be used for strategic initiatives. The strategic initiatives fund is used to cover expenses incurred for projects and personnel to strategically position the University to sustain growth and encourage innovation.

Net Assets With Donor Restrictions

This net asset class includes resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments with maturities at date of purchase of three months or less. Such accounts are carried at cost plus accrued interest. Cash and cash equivalents held by investment managers are considered part of investments.

Cash and cash equivalents may be deposited into bank accounts and other instruments with and without federal deposit insurance and balances may exceed federally insured limits. The University monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts and therefore it believes its exposure to this concentration is limited.

Included in cash and cash equivalents are restricted accounts which amounted to \$1,703,853 and \$3,503,350 at June 30, 2019 and 2018, respectively. The University maintains a line of credit that is available in the event that restricted cash would be in excess of cash and cash equivalents at any time during the year.

Students' Accounts Receivable

Students are billed based on dates outlined in the academic catalog as agreed in advance of the delivery of the related academic or auxiliary activity. Payments for tuition, fees, room, board and auxiliary enterprises charges are generally due by the start of the academic period with the recognition that payments being made by the DOE or others are subject to specific requirements within those programs as to when those funds can be availed. Certain DOE funding can be availed prior to the commencement of the academic period, while other amounts are paid on specified intervals based on the rules as promulgated by the DOE. Thus cash flows on accounts receivable balances and the measurement of deferred revenues do not directly depend on meeting specified performance obligations of the University. Student accounts receivable are not collateralized.

Student accounts receivable are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts is established based on historical experience which is reviewed and assessed periodically.

Contributions Receivable

Contributions receivable are recorded at fair value when initially pledged using Level 2 fair value inputs as described later in this section. For contributions expected to be collected in one year or more, fair value is arrived at by using expected collection rates along with a present value discount to account for the inherent risk associated with the expected future cash flows. Amortization of the discount is included in contributions revenue. Unconditional promises to give are periodically reviewed to adjust the allowance for doubtful accounts. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from plans on individual accounts.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Debt Service Reserve with Trustee

Debt service reserve with trustee is carried at fair market value using Level 1 inputs as discussed later in this section. The account consists primarily of funds held for debt service pursuant to the bond indentures which require that specified amounts be maintained with the trustee. The assets in the fund are a money market fund of U.S. government securities which complies with provisions of the bond agreements.

Unexpended Bond Proceeds

Unexpended bond proceeds are carried at fair market value using Level 2 inputs as discussed later in this section. Such funds are held by the trustee under the related bond indenture and are available for release as qualifying expenditures as per the bond agreement are incurred and presented for reimbursement. The assets in the fund are held in U.S. treasuries which complies with the provisions of the bond agreement.

Student Loans Receivable and U.S. Government Loan Advances

The University has in the past made uncollateralized loans to students based on financial need under the Perkins Loan program. The Perkins Loan program is sponsored by the DOE and operated by the University, subject to federal eligibility requirements. The program has been funded over multiple years with federal funds along with a modest match from the University. As loans are repaid, funds are collected and held in a restricted cash account which is included in cash and cash equivalents. The advances of federal funds are ultimately repayable should the program cease or should the University elect to no longer participate in the program, and accordingly, such advances (subject to certain adjustments) are classified as liabilities in the statements of financial position. The University utilizes the services of a third party for billing, collection, and other requirements associated with this program. Credit risk is mitigated given the ability of the University to place non-performing loans with the DOE thus reducing the federal advances, and accordingly, reserves are modest. Management evaluates this when considering its collection experience, current conditions and related items that could have an impact in order to estimate reserves required.

Investments Held on Behalf of Employees for Retirement and Obligations to Employees for Retirement

The University has a non-qualified deferred compensation plan under Section 457 of the Internal Revenue Code covering certain employees. Assets associated with this plan are included in investments held on behalf of employees for retirement. The corresponding obligation to the employees is included in obligations to employees for retirement. Expenses under this plan amounted to approximately \$57,000 and \$52,000 for years ended June 30, 2019 and 2018, respectively.

Investments and Trusts

Investments are carried at fair value as per those policies discussed later in this section.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Investments and Trusts (Continued)

Net investment return (loss) is reported in the statement of activities and consists of interest, dividends, realized and unrealized gains and losses, less external and direct internal investment expenses. Returns are allocated to the underlying funds if such funds are with donor restrictions.

Fair Value Measurements

The University reports certain assets and liabilities at fair value on a recurring or non-recurring basis depending on the underlying policy for the particular item, in accordance with fair value standards. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Recurring fair value measurements include the University's investments and trusts, debt service reserve with trustee and unexpended bond proceeds. Non-recurring measurements include contributions receivable and annuities payable. In addition, the University reports certain investments using the net asset value per share ("NAV") as determined by investment managers under the so called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the University to classify financial instruments (but for those measured using NAV) into a three-level hierarchy, based on the priority of inputs to the valuation technique.

The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in value of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. It is also possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements.

Property and Equipment

Property and equipment are recorded at acquisition cost when the useful life is over one year when such amounts exceed a management established capitalization threshold, net of accumulated depreciation and amortization. Maintenance and repairs are expensed as incurred, and improvements are capitalized. For assets placed in service, depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to sixty years. Interest incurred during the construction phase of projects is capitalized. Library books are expensed during the period the expenditures are incurred.

Deferred Revenue and Advance Payments

Deferred revenue represents unearned amounts of tuition, fees, room, board and auxiliary enterprises revenue given courses and services in process at year end and are primarily associated with summer academic sessions. Such amounts are computed based on the percentage of completion of courses or use of services such as housing. Revenue is recognized over time with such amounts generally being recognized on a current basis given the nature and duration of the underlying services being provided. Advance payments relate to enrollment deposits or other payment made in advance for which no revenue process is currently being provided.

Substantially all amounts included in deferred revenue at the opening of each period were recognized as revenues during the following fiscal period with very limited amounts not being earned associated with student withdrawal rights that management does not consider material. The remaining performance obligation is time driven given the academic calendar that underlies the earnings process for tuition, fees, room, board and auxiliary revenue. There were no significant changes to deferred revenue amounts on a quantitative or qualitative basis

Annuities Payable

Annuities payable generally relate to the obligations associated with split interest agreements where the University agrees to pay a donor and named beneficiaries a fixed amount per year for the life of the annuitants in exchange for assets at the date of the gifts. The difference between the fair value of the assets donated and the present value of the annuity obligation represents contribution revenue. The annuity obligations are unsecured debts of the University. The initially recorded fair value of the donated assets is determined based on the underlying nature of the gift received utilizing Level 1, 2 or 3 inputs with such assets generally being included in investments, while the initial measurement of the related obligations are based on Level 2 inputs as per the fair value policies elsewhere in this section.

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Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Bonds, Notes and Loans Payable

Bonds and notes payable are stated net of premiums, discounts and issuance costs. Premiums, discounts and issuance costs are amortized on the straight-line basis over the term of the underlying debt agreement.

Asset Retirement Obligations

The University follows accounting standards for conditional asset retirement obligations which requires that conditional asset retirement obligations (“AROs”) that meet the definition of liabilities should be recognized when incurred if their fair values can be reasonably estimated.

The University was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation AROs. These conditional AROs are primarily related to the necessary structural updates to various properties owned by the University. Because these conditional obligations have indeterminate settlement dates, the University could not develop a reasonable estimate of its AROs. The University will continue to assess its ability to estimate fair values at each future reporting date.

Income Taxes

The University is recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) and is generally exempt from Federal and state income taxes on related income. Certain unrelated activities are subject to Federal and state taxation as unrelated business income. Given the limited taxable activities of the University, management has concluded that disclosures related to tax provisions are not necessary.

Uncertain Tax Positions

The University accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The University has identified its tax status as a tax-exempt entity and its determinations as to what income is related and unrelated as its only significant tax positions; however, the University has determined that such tax positions do not result in an uncertainty requiring recognition. The University is not currently under examination by any taxing jurisdiction.

The University’s Federal and state tax returns are generally open for examination for three years following the date filed.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Operations

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions as follows:

The University derives revenues primarily through tuition, fees, room, board and auxiliary services all of which are under arrangements that are aligned to an academic semester which is less than one year in length.

Tuition, fees and auxiliary enterprises revenue are recorded at established rates, net of institutional financial aid and scholarships provided directly to students and therefore amounts are deemed to be fixed and determinable. Such net amounts are recorded as revenue when performance obligations are satisfied which is generally over time as services are rendered. Management believes that recognizing revenue over time is the best measure of services rendered based on its academic calendar and has not made any changes in the timing of its satisfaction of its performance obligations or amounts allocated to those obligations. Discounts provided to employees are considered part of fringe benefits within operating expenses and likewise are recorded over time. Management does not consider there to be significant judgment involved in the timing of satisfaction of performance obligations as they are directly linked to the academic calendar of the related academic activity.

Students may withdraw from programs of study within certain time limits as under the University's withdrawal policies by semester. These policies vary by program but allow for up to a 100% refund after the start of classes. Given the normal timing of the University's programs, the exposure to such withdrawal rights is limited at year end.

Payments made by third parties such as DOE relative to loans and grants to students are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the University.

Revenue earned on other federal awards is recognized as related costs are incurred.

Rental income is recorded as revenue over time as earned.

Investment returns are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Expenses are reported as decreases in net assets without donor restrictions.

Contributions, including unconditional promises to give, are initially recorded as revenue as either with or without donor restrictions at fair value when verifiably committed. Unconditional promises to give that are expected to be collected in one year or more are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved. Fair value is determined at the original date of record as described in this section using Level 2 fair value inputs. Conditional contributions are recorded as revenue when the conditions have been met

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Operations (Continued)

which generally involves the meeting of a barrier to entitlement such as the achievement of a match or incurring specified allowable expenses in accordance with a framework of allowable cost or other barriers. Intentions to give are not recorded as revenues or assets. Expirations of donor-imposed restrictions on net assets, such as the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as "net assets released from restriction" between the classes of net assets.

Contributed services are recognized as gifts in kind if the services received create or enhance non-financial assets or require specialized skills. A number of volunteers contribute services to the University to assist with fundraising, admissions, recruiting and other activities. No amounts have been recognized in the financial statements for these services.

The University reports gifts of property, plant and equipment as revenues without donor restrictions 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 revenue with donor restrictions. The University reports expirations on donor restrictions when the donated or acquired long-lived assets are placed in service.

Operations

Nonoperating activities includes investment returns in excess or less than endowment spending draws, funds released from donor restriction associated with capital improvements and plant, loss of defeasance of debt, and certain other gains and losses.

Advertising

The University expenses the cost of advertising when incurred. Advertising expense was approximately \$995,000 and \$788,000 for the years ended June 30, 2019 and 2018, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of plant assets and operation and maintenance of plant expenses have been allocated to functional classifications based on square footage of facilities. Interest expense is allocated to functional classifications that benefited from the use of the proceeds of the debt.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant management estimates included in the financial statements relate to the allowance for doubtful students accounts, loans, contributions and grants receivable, fair value of certain financial instruments and alternative investments, useful lives of depreciable assets, conditional asset retirement obligations and certain capital lease obligations, valuation of interests in and obligations under split interest agreements, measurement of deferred revenue, and the allocation of depreciation, interest, and maintenance costs to functional classifications.

Self-Insurance

In January 2019, the University began participating in a self-insured health insurance captive (the "Captive") in order to manage its health insurance costs. The University is an equity participant in the Captive that currently includes fifteen other educational institutions, with four more joining July 1, 2019. As a participant, the University is liable for its pro-rata share of any Captive losses. Any Captive gains or losses will be allocated to the members at the end of the year. The Captive has purchased reinsurance for itself to limit claims to the capital provided by the members. The University has already made its required initial capital contribution. Specific to the University's plan, a stop-loss insurance policy is in force providing coverage for claims in excess of \$100,000 per participant in a calendar year. An accrual of \$375,000 was recorded for benefit claims incurred but not reported at June 30, 2019.

New Accounting Pronouncements

In 2019, the University adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, associated with revenue recognition. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard addresses inconsistency in revenue recognition by outlining a principle based system which requires that there be a contract with a customer, that performance obligations be identified, that transaction price be determined, that transaction price is allocated to performance obligations and that revenue be recorded when or as the performance obligations are satisfied over the contract term. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The University adopted this standard using the modified retrospective approach on July 1, 2018.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

The adoption of this standard did not materially impact reported revenue in any period because: (1) performance obligations were determined to be similar as compared with deliverables previously identified; (2) the transaction price is consistent; and (3) revenue was recorded in the same manner as under prior standards. In evaluating the effects of the change, contracts in process as of the date of adoption were considered under the practical expedient allowed under the standard.

Associated with the adoption of this standard, consideration was given to the accounting treatment of certain costs to obtain and fulfill a contract. Certain incremental costs of obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer, that are not in the scope of other existing guidance, should be analyzed for capitalization. There were no costs incurred to obtain and fulfill contracts, and accordingly, no change was made to this accounting.

In 2019, the University also adopted ASU No. 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

The financial statement standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The University has adjusted the presentation to all periods presented, which resulted in an increase in net assets without donor restrictions of \$59,450 and a decrease in net assets with donor restrictions of the same amount at June 30, 2018, given the change in accounting for underwater endowment accounts included with this change.

The contributions standard addresses inconsistency in revenue recognition when an item should be considered a contribution or an exchange type transaction. Exchanges would be accounted for using the revenue recognition standards above. It also provides guidance as to when a contribution should be considered conditional which, for example, the case is often when funds are received under federal grants and contracts. Conditional contributions have different revenue recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being deferred or a receivable as applicable. The University adopted this standard using the modified retrospective approach on July 1, 2018.

The financial statement standards were applied to all periods presented with the new categories as prescribed by the standard with the impact as outlined above.

As required under the modified retrospective method used for both revenue recognition and contribution accounting, the University is required to indicate the effects of adopting the change in the current reporting period, however management determined that the effect on earned revenue, deferred revenue and contribution revenue was immaterial. As such, no disclosures have been provided on the effect on the June 30, 2019 financial statements. In addition, certain changes from adopting these new standards resulted in changes to terminology which impacted certain disclosures and presentation of amounts.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent to June 30, 2019, the University issued \$56,595,000 in Massachusetts Development Finance Agency Fixed Rate Revenue Bonds, Series 2019. The bonds were issued to defease the Series 2012 bonds and the University's outstanding loan payable, as well as to finance various improvements throughout the University. The University incurred costs of issuance of approximately \$682,000 with the Series 2019 issue, which will be capitalized and amortized over the life of the bonds. In addition, the Series 2019 issue was sold at a premium of \$4,930,625, which will be amortized over the life of the bonds as a reduction in interest costs.

The University has evaluated subsequent events through October 2, 2019, the date the financial statements were issued. Other than the matters above, no events have occurred requiring measurement or disclosure in the financial statements.

Note 2 - Liquidity and Availability

The University regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities and its line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University 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. Student loans receivable are not included in the analysis as principal and interest on these loans are not available to meet current operating needs.

In addition to the financial assets available to meet general expenditures over the next 12 months, the University seeks to operate with as close to a balanced budget as is possible. Any shortfall is made up from board designated funds functioning as endowment.

Although not expected to be needed, the spendable yet restricted portion of the University's net assets with donor restrictions could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 2 - Liquidity and Availability (Continued)

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

Financial assets at year end:	
Cash and cash equivalents	\$ 4,493,584
Accounts receivable, net	4,192,419
Accounts, grants and interest receivable	1,273,438
Contributions receivable, net	4,795,563
Student loans receivable, net	1,460,154
Investments and trusts convertible cash in the next 12 months	<u>170,067,576</u>

Total financial assets at year end	\$ <u>186,282,734</u>
-------------------------------------------	------------------------------

Financial assets available to meet general expenditures over the next 12 months:	
Cash and cash equivalents	\$ 2,789,731
Accounts receivable, net	4,192,419
Contributions for general expenditures due in one year or less	1,501,216
Endowment spending rate distribution and appropriation	<u>9,477,470</u>

Total financial assets available to meet general expenditures over the next 12 months	\$ <u>17,960,836</u>
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The University also has substantial investments that are board designated as funds functioning as endowments in excess of \$165 million at June 30, 2019. As stated previously, such amounts are available to cover shortfalls and with board vote other needs should such need arise.

Note 3 - Students' Accounts Receivable, Net

Students' accounts receivable consist of the following at June 30:

	2019	2018
Students' accounts receivable	\$ 6,364,759	\$ 6,496,413
Allowance for doubtful accounts	<u>(2,172,340)</u>	<u>(2,272,059)</u>
	\$ <u>4,192,419</u>	\$ <u>4,224,354</u>

The University has no contract assets as of June 30, 2019 and 2018.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 4 - Contributions Receivable, Net

Contributions receivable are summarized as follows at June 30:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,501,216	\$ 128,326
One year to five years	2,803,932	4,077,318
Greater than five years	<u>776,372</u>	<u>1,147,834</u>
	5,081,520	5,353,478
Less present value discount and allowance for doubtful accounts	<u>(285,957)</u>	<u>(335,693)</u>
Contributions receivable, net	<u>\$ 4,795,563</u>	<u>\$ 5,017,785</u>

As of June 30, 2019 and 2018, 70% and 88%, respectively, of gross pledges consisted of pledges from two donors.

The University has several federal grant awards which have not been fully drawn down as of June 30, 2019. The amount of remaining available awards equaled approximately \$712,000.

Note 5 - Student Loans Receivable

Student loans consist of the following at June 30:

	2019	2018
Perkins loans program	\$ <u>1,516,188</u>	\$ <u>1,735,388</u>
Less allowance for doubtful accounts:		
Beginning of year	(56,034)	(56,034)
Write-offs	<u>-</u>	<u>-</u>
End of year	<u>(56,034)</u>	<u>(56,034)</u>
Student loans receivable, net	<u>\$ 1,460,154</u>	<u>\$ 1,679,354</u>

Management has elected to omit details on past due accounts given the limited amounts involved.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 6 - Investments and Trusts and Other Fair Value Measurements

The valuation of the University's financial instruments by the fair value hierarchy consisted of the following at June 30:

	2019				
	Total	Net Asset Value	Level 1	Level 2	Level 3
Assets					
Debt service reserve with trustee	\$ 2,740,783	\$ -	\$ 2,740,783	\$ -	\$ -
	<u>2,740,783</u>	<u>-</u>	<u>2,740,783</u>	<u>-</u>	<u>-</u>
Investments and trusts					
Cash equivalents	2,272,280	-	2,272,280	-	-
Global equities	110,286,523	69,851,016	40,435,507	-	-
Private equity	16,717,904	16,717,904	-	-	-
Hedge funds	18,741,389	15,079,291	3,662,098	-	-
Fixed income	29,518,374	8,002,119	21,516,255	-	-
Real estate	9,250,846	9,250,846	-	-	-
Real assets	1,185,079	1,185,079	-	-	-
Trusts held by others	1,308,732	-	-	-	1,308,732
	<u>189,281,127</u>	<u>120,086,255</u>	<u>67,886,140</u>	<u>-</u>	<u>1,308,732</u>
Total assets at fair value	\$ <u>192,021,910</u>	\$ <u>120,086,255</u>	\$ <u>70,626,923</u>	\$ <u>-</u>	\$ <u>1,308,732</u>
2018					
	Total	Net Asset Value	Level 1	Level 2	Level 3
Assets					
Debt service reserve with trustee	\$ 2,690,494	\$ -	\$ 2,690,494	\$ -	\$ -
Unexpended bond proceeds	1,685,467	-	-	1,685,467	-
	<u>4,375,961</u>	<u>-</u>	<u>2,690,494</u>	<u>1,685,467</u>	<u>-</u>
Investments and trusts					
Cash equivalents	8,012,710	-	8,012,710	-	-
Global equities	118,733,172	76,945,953	41,787,219	-	-
Private equity	8,838,750	8,838,750	-	-	-
Hedge funds	22,373,213	22,373,213	-	-	-
Fixed income	20,170,500	-	20,170,500	-	-
Real estate	8,960,497	8,960,497	-	-	-
Real assets	1,723,098	1,723,098	-	-	-
Trusts held by others	1,280,257	-	-	-	1,280,257
	<u>190,092,197</u>	<u>118,841,511</u>	<u>69,970,429</u>	<u>-</u>	<u>1,280,257</u>
Total assets at fair value	\$ <u>194,468,158</u>	\$ <u>118,841,511</u>	\$ <u>72,660,923</u>	\$ <u>1,685,467</u>	\$ <u>1,280,257</u>

LESLEY UNIVERSITY

Notes to Financial Statements

Note 6 - Investments and Trusts and Other Fair Value Measurements (Continued)

As of June 30, 2019, the liquidity of the University's investments are as follows:

<i>Redemption Frequency</i>	<i>Fair Value</i>
Daily	\$ 115,510,905
Monthly	39,080,251
Quarterly	15,476,420
Annual	-
Illiquid	<u>17,904,819</u>
Total investments	<u>\$ 187,972,395</u>

Unfunded commitments under various investment vehicles amounted to approximately \$11,440,000 at June 30, 2019. Management has no plans or intentions to liquidate any of its NAV investments other than in the ordinary course of business as allowed under such instruments.

Trusts held by others relate to the assets of an irrevocable charitable remainder trust and an irrevocable perpetual trust, which are held by independent donor-appointed trustees. Income from the perpetual trust is recognized "upon distribution" unless deemed as return of capital plus or minus any change in the fair value of the underlying asset while income from the remainder trust represents the change in fair value of the trust assets. Management has elected to omit disclosures about details of the Level 3 investment roll forward given the limited amounts involved.

Note 7 - Property and Equipment

The following is a summary of the University's property and equipment at June 30:

	2019	2018
Land and improvements	\$ 32,195,680	\$ 19,551,474
Building and improvements	238,003,482	221,287,571
Furniture and equipment	20,871,681	17,843,285
Construction in progress	<u>1,229,204</u>	<u>2,425,593</u>
Total property and equipment	292,300,047	261,107,923
Less accumulated depreciation and amortization	<u>(81,931,799)</u>	<u>(75,367,946)</u>
Property and equipment, net	<u>\$ 210,368,248</u>	<u>\$ 185,739,977</u>

Depreciation expense was \$7,359,067 and \$6,756,674 for the years ended June 30, 2019 and 2018, respectively.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 8 - Annuities Payable

Annuities payable represent arrangements between donors and the University in which the donors have contributed assets in exchange for a promise by the University to pay a fixed amount for a specified period of time to the donors or their designees. Annuity liabilities require the use of life tables and discount rates to determine the present value of the obligation at year end.

The estimated net present value of the annual annuity payments over the next five years and thereafter are as follows at June 30, 2019:

2020	\$	199,808
2021		211,752
2022		224,412
2023		237,834
2024		252,062
Thereafter		<u>1,764,063</u>
	\$	<u><u>2,889,931</u></u>

Note 9 - Line of Credit, Bonds, Notes and Loans Payable

Line of Credit

The University has a \$10,000,000 revolving line of credit with a bank with an interest rate equal to the London Interbank Offered Rate ("LIBOR") plus 0.90% (3.30% at June 30, 2019). The line is on a parity basis with all other indebtedness of the University via a pledge of the University's tuition receipts and is subject to certain covenants. The line of credit incurs a fee on the unused portion of the balance equal to 0.20% annually. This line of credit is due to expire on April 30, 2020. Management expects to renew this credit line under similar terms.

The University has a \$6,000,000 line of credit with a bank to provide bridge financing for renovations to facilitate various improvements throughout the University. The University closed this line of credit in conjunction with the Series 2019 bond issuance described in Note 1 under subsequent events.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 9 - Line of Credit, Bonds, Notes and Loans Payable (Continued)

Bonds, Notes and Loans Payable

The following is a summary of the University's bonds and notes payable at June 30:

	2019	2018
TD Bank Bridge Loan with a fixed interest rate of 4.57% maturing in July 2021.	\$ 25,000,000	\$ -
Massachusetts Development Finance Agency Revenue Bonds (Series 2017), maturing at various times through 2033 with fixed interest rates ranging from 2.17%-5.00%.	9,540,000	9,905,000
Massachusetts Development Finance Agency Revenue Bonds (Series 2016), maturing at various times through 2039 with fixed interest rates ranging from 4.00%-5.00%.	45,700,000	45,805,000
Massachusetts Development Finance Agency Revenue Bonds (Series 2011), maturing at various times through 2033 with fixed interest rates ranging from 3.5%-5.25%.	28,640,000	29,355,000
Massachusetts Health and Educational Facilities Authority Revenue Bonds (Series 2009), maturing at various times through 2039 with fixed interest rates ranging from 3.0%-5.25%.	1,065,000	2,100,000
Massachusetts Development Finance Agency Revenue Bonds (Series 2012), maturing in 2021 with a fixed interest rate of 2.14%.	<u>1,623,000</u>	<u>2,211,000</u>
	111,568,000	89,376,000
Less unamortized bond issuance costs	(1,512,755)	(1,575,562)
Less unamortized bond discount	(423,720)	(453,985)
Plus unamortized bond premium	<u>10,088,856</u>	<u>10,593,818</u>
Bonds, notes and loans payable, net	\$ <u>119,720,381</u>	\$ <u>97,940,271</u>

LESLEY UNIVERSITY

Notes to Financial Statements

Note 9 - Line of Credit, Bonds, Notes and Loans Payable (Continued)

Bonds, Notes and Loans Payable (Continued)

Payment of certain bonds are backed by bond insurance. Bonds contain covenants which include debt service and liquidity ratios.

As described in Note 1, the University issued new bonds after year end on more favorable terms.

Scheduled maturities of the bonds payable giving effect of the refinancing subsequent debt issued after year end are as follows:

2020	\$	1,550,000
2021		3,335,000
2022		3,475,000
2023		3,600,000
2024		3,670,000
Thereafter		95,938,000
Total bonds payable	\$	<u>111,568,000</u>

Note 10 - Net Assets and Endowment Matters

Net Assets Without Donor Restrictions

Net assets without donor restrictions are comprised of the following:

	2019	2018
Funds without donor restrictions:		
General and other	\$ 148,037,038	\$ 145,944,432
Net investment in plant	90,472,621	87,551,204
Strategic initiatives	3,602,496	4,409,169
Total net assets without donor restrictions	\$ <u>242,112,155</u>	\$ <u>237,904,805</u>

General and other purposes - Discretionary funds available for carrying on the operating activities of the University. These funds have been set aside by the Board of Trustees to support operations via a draw policy with additional amounts being available under that policy along with additional amounts as approved by Board of Trustees.

Net investment in plant - The value of buildings and equipment net of depreciation, used in the University's operations. This amount is offset by outstanding liabilities related to the assets, such as bond debt and capital leases.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Net Assets Without Donor Restrictions (Continued)

Strategic initiatives - Funds functioning as endowment that have been set aside by the Board of Trustees for strategic investments.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Accumulated unspent gains on endowment:		
Instruction	\$ 5,950,860	\$ 5,979,093
Student aid	1,792,127	1,870,273
Other (academic support, student services, general institutional)	185,607	197,187
Total accumulated unspent gains on endowment	<u>7,928,594</u>	<u>8,046,553</u>
Endowment corpus:		
Instruction	5,063,189	5,035,644
Student aid	10,162,679	9,841,585
Other (academic support, student services, general institutional)	2,476,335	2,432,860
Total endowment corpus	<u>17,702,203</u>	<u>17,310,089</u>
Total endowment	<u>25,630,797</u>	<u>25,356,642</u>
Other donor-restricted net assets:		
Contributions and other receivables	2,488,996	5,032,786
Instruction	2,752,776	2,604,141
Student aid	447,161	360,868
Capital improvements, plant	396,469	2,291,614
Other (academic support, student services, general institutional)	71,518	11,017
Total other donor-restricted net assets	<u>6,156,920</u>	<u>10,300,426</u>
Total net assets with donor restrictions	\$ 31,787,717	\$ 35,657,068

LESLEY UNIVERSITY

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions were released from restrictions as follows for the year ended June 30:

	2019	2018
Instruction	\$ 1,761,465	\$ 1,210,294
Student aid	705,984	747,347
Plant	1,987,001	2,171,667
Other (academic support, student services, general institutional)	<u>624,371</u>	<u>840,981</u>
	<u>\$ 5,078,821</u>	<u>\$ 4,970,289</u>

Included in the above table are \$1,007,344 and \$875,235 associated with the amount released under the spending polices associated with the endowment type resources. The remainder of the amounts represent the releases associated with the normal consumption of donor-restricted resources outside of the endowment spending policies.

Endowments and funds functioning as endowment, including trusts, are as follows for the years ended June 30:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets and those functioning as endowment assets, June 30, 2018	\$ 165,038,374	\$ 25,053,823	\$ 190,092,197
Gifts and additions	<u>5,083,068</u>	<u>562,763</u>	<u>5,645,831</u>
Investment returns	<u>6,163,811</u>	<u>911,753</u>	<u>7,075,564</u>
Expenditures:			
Amounts appropriated for operations	<u>(12,525,121)</u>	<u>(1,007,344)</u>	<u>(13,532,465)</u>
Change in investments	<u>(1,278,242)</u>	<u>467,172</u>	<u>(811,070)</u>
Endowment assets and those functioning as endowment assets, June 30, 2019	<u>\$ 163,760,132</u>	<u>\$ 25,520,995</u>	<u>\$ 189,281,127</u>

LESLEY UNIVERSITY

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions (Continued)

	2018	
	Without Donor Restrictions	With Donor Restrictions
		Total
Endowment assets and those functioning as endowment assets, July 1, 2017	\$ 163,636,263	\$ 23,313,128
	<u> </u>	<u> </u>
Gifts and additions	-	782,375
	<u> </u>	<u> </u>
Investment returns	13,553,161	1,833,555
	<u> </u>	<u> </u>
Expenditures:		
Amounts appropriated for operations	(12,151,050)	(875,235)
	<u> </u>	<u> </u>
Change in investments	1,402,111	1,740,695
	<u> </u>	<u> </u>
Endowment assets and those functioning as endowment assets, June 30, 2018	\$ 165,038,374	\$ 25,053,823
	<u><u> </u></u>	<u><u> </u></u>

Endowment

The University's endowment consists of approximately 90 individually funds which are invested and administered in accordance with donor stipulation. The board also invests certain funds as if they are endowment, however those are subject to board oversight rather than state law. The University tracks the value of original gifts to its endowment type funds as well as the appreciation over time, less any spending under its spending policies. Such appreciation follows the original gift instrument that underlies the related funds.

The University's investments are managed in accordance with sound practices emphasizing long-term fundamentals to achieve long-term rates of return, to maintain purchasing power of the funds, and to provide for current spending. Investments are diversified to reduce volatility and risk associated with concentrated positions, and returns sought are those comparing favorably to other endowments, foundations and appropriate benchmarks. Portfolio volatility is intended to approximate the weighted composite of market indices correlating with the policy target portfolio, periodically adjusted for market conditions. A diversified target asset allocation places emphasis on equities, fixed income, real estate and managers employing multi-asset and absolute return strategies.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law and Spending Policy

The University followed the standards contained in state law as promulgated in the Commonwealth of Massachusetts as it relates to the management of institutional funds.

The University classifies net assets with donor restrictions based on: (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 as corpus is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with standard of prudence prescribed by state law under UPMIFA. Standards of prudence under UPMIFA consider the following:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

The University invests its endowment, including funds functioning as endowment, investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of cash yield and appreciation of investments earned during the year is provided for program support.

For fiscal year 2019, the endowment spending was equal to approximately \$9,457,000 of which approximately \$8,450,000 was the approved board designated spend from funds functioning as endowment and approximately \$1,007,000 was approved as the spending from funds with donor restrictions. In fiscal year 2019, there was additional spending of approximately \$4,653,000 related to the previously approved Innovation Fund, debt service on acquired real estate and general operating needs.

For fiscal year 2018, the endowment spending was equal to approximately \$9,197,000 of which approximately \$8,322,000 was the approved board designated spend from funds functioning as endowment and approximately \$875,000 was approved as the spending from funds with donor restrictions. In fiscal year 2018, there was additional spending of approximately \$3,290,000, which had been set aside from prior year surpluses related to the previously approved Innovation Fund and general operating needs.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law and Spending Policy (Continued)

The distribution from the without donor restrictions funds functioning as endowment and the endowment is calculated to be approximately \$8,450,000 and approximately \$1,007,000, respectively, for the year ending June 30, 2020. However, the Board retains the discretion to modify its spending or transfer additional Board-designated endowment funds for other institutional purposes beyond the originally budgeted amount of spending.

Endowments with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). These deficits resulted from unfavorable market fluctuations that generally occurred shortly after the investment of newly established endowments, and authorized distribution that was deemed prudent. The College has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Funds with deficiencies were reported in net assets with donor restrictions as follows at June 30:

	2019	2018
Fair value of underwater endowment funds	\$ 659,458	\$ 631,954
Original endowment gift amount	<u>724,910</u>	<u>691,404</u>
Deficiencies of underwater endowment funds	\$ <u>(65,452)</u>	\$ <u>(59,450)</u>

Return Objectives and Risk Parameters

The University's investment portfolio is managed to provide for the long-term support of the University. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flows and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed-upon levels of risk. The target for average annual real total return (net of investment management fees) is at least the spending policy plus inflation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University 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 University targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the University seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

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Notes to Financial Statements

Note 11 - Revenue Matters

The University's revenues from tuition, fees, room, board and auxiliary enterprises are all recognized over time. Factors that can impact the amount and timing of amount of cash flows include policies that allow for withdrawal by students after the start of the program subject to certain limits which differ by nature of program. Cash flows are also impacted by DOE rules which differ for newly enrolled versus continuing students with respect to financial aid. Generally, funds made available by the DOE for new students are available later than for continuing students. Management does not view there to be other qualitative factors that have a significant impact on the nature and amount of revenue and cash flow.

The University has a number of lines of business which include traditional undergraduate education, traditional graduate programs, other continuing education programs, online programs and international programs. The following table summarizes the percentages of revenue from each of these programs:

	2019	2018
Revenue		
Undergraduate tuition, fees, room and board	60%	57%
Graduate tuition and fees	32%	35%
Continuing education programs	4%	4%
Threshold program tuition, fees, room and board	3%	3%
Other fees	1%	1%

Note 12 - Lessor Arrangements

Certain University owned properties are rented to outside parties based on a combination of tenancy-at-will and operating lease arrangements through 2028. The rental income, which is included in auxiliary enterprises, amounted to \$4,143,000 and \$3,309,319 for the years ended June 30, 2019 and 2018, respectively.

Lease revenue commitments under these leases were as follows at June 30, 2019:

2020	\$ 1,868,462
2021	1,909,159
2022	1,923,074
2023	1,968,451
2024	1,973,840
Thereafter	<u>13,063,076</u>
	<u>\$ 22,706,062</u>

LESLEY UNIVERSITY

Notes to Financial Statements

Note 13 - Retirement Plans

All eligible full-time and part-time personnel may elect to participate in a qualified defined contribution retirement plan administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund. The University makes monthly contributions to the plan which is immediately vested for the benefit of the participants. Contributions are based on years of service with a maximum contribution of 8%. Employees must also contribute between 3% and 5% of annual wages in order to be eligible for a University match. Voluntary contributions by participants above the minimum requirement may be made subject to IRS limitations. The University's retirement expenses under this plan were \$2,477,760 and \$2,521,858 for the years ended June 30, 2019 and 2018, respectively.

Note 14 - Commitments and Contingencies

Operating Leases

The University has numerous operating lease obligations through 2023. Operating lease expense amounted to \$154,884 and \$203,102 for the years ended June 30, 2019 and 2018, respectively.

Future minimum rental commitments under operating leases are as follows for the years ending June 30:

2020	\$	183,877
2021		83,146
2022		75,000
2023		75,000
		<hr/>
	\$	<u>417,023</u>

Commitments

The University has long-term agreements with several third-party vendors for custodial services, security, food services, bookstore operations, mail room operations and copy center operations. The expiration dates on these contracts range from fiscal year 2019 to 2020. There are also smaller commitments in the ordinary course that at times extend several years into the future.

Contingencies

The University generally is subject to claims and investigations, which arise in the normal course of its operations. The University believes that the outcome of these matters will not have a material adverse effect on the financial position of the University.

LESLEY UNIVERSITY

Notes to Financial Statements

Note 14 - Commitments and Contingencies (Continued)

Employment Agreements

The University has a long-term employment agreement with its President that stipulates a variety of business terms typical in the education sector.

The University also has employment contracts with key employees, which extend over multiple fiscal years that contain provisions for payments if terminated without cause.

The University had in place a collective bargaining agreement with its core faculty and the agreement expired on June 30, 2019. The University is in negotiations with the union to secure another agreement. The University also has in place a collective bargaining agreement with its adjunct faculty and the agreement expires on June 30, 2021.

Note 15 - Cash Flows Information

Cash paid for interest was \$5,413,738 and \$4,381,822 in 2019 and 2018, respectively.

Non-cash investing and operating activities include \$3,223,096 and \$1,942,365 of capital acquisitions included in accounts payable at June 30, 2019 and 2018, respectively.

During 2018, the University paid off certain TD Bank notes payable; accordingly, non-cash financing activities include the repayment of \$10,960,783 of principal amounts due and the issuance of \$9,905,000 of Series 2017 bonds at a premium of \$1,338,556. The remaining non-cash financing associated with the Series 2017 bonds was used to pay accrued interest of \$30,632 associated with the notes payable and bond issuance costs of \$252,141.