



Trinity

FINANCIAL REPORT

JUNE 30, 2018

TRINITY COLLEGE
FINANCIAL REPORT
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Trinity College
Washington, D.C.

We have audited the accompanying financial statements of Trinity College (the "College"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2018 and 2017, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CERTIFIED PUBLIC ACCOUNTANTS

Blacksburg, Virginia
_____, 2018

TRINITY COLLEGE

STATEMENTS OF FINANCIAL POSITION
For the Years Ended June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 21,807,871	\$ 18,563,023
Receivables and other assets, net of allowance for doubtful accounts 2018 \$651,671; 2017 \$728,531 (Note 2)	4,184,048	4,231,221
Notes receivable, government student loans, net of allowance for doubtful accounts 2018 and 2017 \$100,000	1,676,822	1,714,378
Contributions receivable (Note 3)	1,284,470	1,828,946
Investments (Note 4)	32,890,883	31,643,635
Land, buildings, and equipment, net of accumulated depreciation (Notes 5 and 7)	51,523,311	52,711,997
Funds held in trust by others (Note 6)	11,765,462	11,436,072
Total assets	\$ 125,132,867	\$ 122,129,272
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,151,724	\$ 1,258,842
Accrued wages and benefits	894,034	883,225
Deferred revenues and deposits	1,512,399	1,579,851
U.S. government grants refundable	1,441,309	1,426,892
Asset retirement obligations	1,398,587	1,333,257
Interest rate swap (Note 7)	232,269	1,204,071
Debt (Note 7)	27,773,558	28,832,398
Total liabilities	34,403,880	36,518,536
Net assets (Note 8)		
Unrestricted	60,066,884	54,862,364
Temporarily restricted	9,661,441	10,274,867
Permanently restricted	21,000,662	20,473,505
Total net assets	90,728,987	85,610,736
Total liabilities and net assets	\$ 125,132,867	\$ 122,129,272

The Notes to Financial Statements are an integral part of these statements.

TRINITY COLLEGE

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2018**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES				
Tuition and fees	\$ 34,795,056	\$ -	\$ -	\$ 34,795,056
Less financial aid	(11,506,382)	-	-	(11,506,382)
Net tuition and fees (Note 9)	23,288,674	-	-	23,288,674
Gifts	5,201,645	1,926,648	-	7,128,293
Investment income, endowment, and other (Note 4)	-	722,665	-	722,665
Interest income – temporary investments	190,122	29,243	-	219,365
Government and private grants	693,706	-	-	693,706
Auxiliary services	3,514,544	-	-	3,514,544
Other revenues	469,536	-	-	469,536
Net assets released from restrictions and reclassifications (Note 10)	2,952,672	(2,952,672)	-	-
Total operating revenues	36,310,899	(274,116)	-	36,036,783
OPERATING EXPENSES				
Educational and general:				
Instruction	11,760,030	-	-	11,760,030
Public service	20,723	-	-	20,723
Academic support	3,349,374	-	-	3,349,374
Student services	4,837,673	-	-	4,837,673
Institutional support	8,758,305	-	-	8,758,305
Auxiliary services	4,234,323	-	-	4,234,323
Total operating expenses (Note 11)	32,960,428	-	-	32,960,428
Change in net assets, operating	3,350,471	(274,116)	-	3,076,355
NON-OPERATING INCOME				
Gifts and private grants	-	51,113	182,126	233,239
Interest income	640	123	-	763
Investment return, net of amount available to support current operations (Note 4)	23,088	480,415	-	503,503
Change in fair value of swap agreement	971,802	-	-	971,802
Loss on disposal of land, buildings, and equipment	(12,442)	-	-	(12,442)
Change in value of funds held in trust by others	-	-	329,390	329,390
Change in value of charitable remainder trust	-	-	15,641	15,641
Net assets released from restrictions and reclassifications (Note 10)	870,961	(870,961)	-	-
Change in net assets, non-operating	1,854,049	(339,310)	527,157	2,041,896
Change in net assets	5,204,520	(613,426)	527,157	5,118,251
NET ASSETS				
Beginning	54,862,364	10,274,867	20,473,505	85,610,736
Ending	\$ 60,066,884	\$ 9,661,441	\$ 21,000,662	\$ 90,728,987

The Notes to Financial Statements are an integral part of these statements.

TRINITY COLLEGE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES				
Tuition and fees	\$ 34,506,427	\$ -	\$ -	\$ 34,506,427
Less financial aid	(10,729,670)	-	-	(10,729,670)
Net tuition and fees (Note 9)	23,776,757	-	-	23,776,757
Gifts	969,653	1,630,565	-	2,600,218
Investment income, endowment, and other (Note 4)	-	712,775	-	712,775
Interest income – temporary investments	116,810	51,242	-	168,052
Government and private grants	807,845	-	-	807,845
Auxiliary services	3,388,327	-	-	3,388,327
Other revenues	376,330	-	-	376,330
Net assets released from restrictions and reclassifications (Note 10)	1,996,095	(1,996,095)	-	-
Total operating revenues	31,431,817	398,487	-	31,830,304
OPERATING EXPENSES				
Educational and general:				
Instruction	10,530,179	-	-	10,530,179
Public service	11,031	-	-	11,031
Academic support	3,536,725	-	-	3,536,725
Student services	4,607,533	-	-	4,607,533
Institutional support	9,265,599	-	-	9,265,599
Auxiliary services	4,005,185	-	-	4,005,185
Total operating expenses (Note 11)	31,956,252	-	-	31,956,252
Change in net assets, operating	(524,435)	398,487	-	(125,948)
NON-OPERATING INCOME				
Gifts and private grants	77,546	286,841	205,758	570,145
Interest income	-	341	-	341
Investment return, net of amount available to support current operations (Note 4)	106,387	508,417	-	614,804
Change in fair value of swap agreement	1,586,775	-	-	1,586,775
Loss on disposal of land, buildings, and equipment	(15,419)	-	-	(15,419)
Change in value of funds held in trust by others	-	-	704,899	704,899
Change in value of charitable remainder trust	-	-	66,723	66,723
Net assets released from restrictions and reclassifications (Note 10)	5,597,571	(5,597,571)	-	-
Change in net assets, non-operating	7,352,860	(4,801,972)	977,380	3,528,268
Change in net assets	6,828,425	(4,403,485)	977,380	3,402,320
NET ASSETS				
Beginning	48,033,939	14,678,352	19,496,125	82,208,416
Ending	\$ 54,862,364	\$ 10,274,867	\$ 20,473,505	\$ 85,610,736

The Notes to Financial Statements are an integral part of these statements.

TRINITY COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ 5,118,251	\$ 3,402,320
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-operating and noncash items:		
Net realized and unrealized gain on investments	(491,228)	(578,934)
Change in fair value of interest rate swap agreement	(971,802)	(1,586,775)
Amortization of bond issuance costs	14,000	14,000
Contributions restricted for plant expansion and endowment	(233,239)	(340,832)
Change in funds held by others	(329,390)	(704,899)
Loss on disposal of land, buildings, and equipment	12,442	15,419
Depreciation and amortization	1,481,395	1,171,148
Change in certain operating assets and liabilities:		
(Increase) decrease in:		
Receivables and other assets	47,174	(2,147,620)
Contributions receivable	544,476	692,093
(Decrease) increase in:		
Accounts payable and accrued expenses	(74,641)	380,958
Accrued wages and benefits	10,809	45,533
Deferred revenues and deposits	(67,452)	83,477
Asset retirement obligations	65,330	62,278
U.S. government grants refundable	14,417	11,321
Net cash provided by operating activities	5,140,542	519,487
INVESTING ACTIVITIES		
Student loans advanced	(43,628)	(189,785)
Student loans collected	81,184	80,428
Purchases of land, buildings, and equipment	(307,134)	(2,792,453)
Change in accounts payable incurred on purchases	(32,477)	(2,822,553)
Less debt incurred on purchases	-	1,431,838
Change in investments, net of proceeds from sales	(756,020)	3,452,784
Net cash used in investing activities	(1,058,075)	(839,741)
FINANCING ACTIVITIES		
Proceeds from contributions restricted for plant expansion and endowment	233,239	340,832
Proceeds from new debt	-	1,431,838
Less new debt incurred to finance land, buildings, and equipment additions	-	(1,431,838)
Payments of debt	(1,070,858)	(1,202,432)
Net cash used in financing activities	(837,619)	(861,600)
Increase (decrease) in cash and cash equivalents	3,244,848	(1,181,854)
CASH AND CASH EQUIVALENTS		
Beginning	18,563,023	19,744,877
Ending	\$ 21,807,871	\$ 18,563,023

(Continued)

The Notes to Financial Statements are an integral part of these statements.

TRINITY COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
SUPPLEMENTAL DISCLOSURES		
Cash payments for interest (net of capitalized interest of \$3,258 for 2018; \$4,536 for 2017)	<u>\$ 829,950</u>	<u>\$ 841,052</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Debt incurred to acquire land, buildings, and equipment	<u>\$ -</u>	<u>\$ 1,431,838</u>
Purchases of land, buildings, and equipment included in accounts payable	<u>\$ -</u>	<u>\$ 32,477</u>

The Notes to Financial Statements are an integral part of these statements.

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies

Trinity College (the “College”) is an independent, comprehensive college located in Washington, D.C. The College was founded in 1897 by the Sisters of Notre Dame De Namur and in accordance with the Act of Congress under which the College is chartered. The College includes the historic undergraduate women’s college (the College of Arts and Sciences) and the coeducational schools of Education, Professional Studies, and Nursing and Health Professions. The Board of Trustees governs the College and is responsible for all management and policy-making of the College.

The Board approved the adoption of the name “Trinity University (Washington, D.C.)” as an enterprise name and under which it conducts operations. The Board adopted this change in recognition of the fact that Trinity’s operations are characteristic of institutions recognized as universities. To further distinguish Trinity in print material, Trinity refers to itself as Trinity Washington University. The Board decided that “Trinity College” would continue as the official legal name of the institution. Notice was provided to the Education Licensing Commission in accordance with *D.C. Code*.

The College is accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools. The School of Education is accredited by the National Council for Accreditation of Teacher Education. Trinity’s nursing program is accredited by the Commission on Collegiate Nursing Education.

The significant accounting policies followed by the College are described below:

Basis of financial statement presentation and accounting

The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America. 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying financial statements present information regarding the College’s financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the College pursuant to those stipulations.

Permanently restricted net assets are amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various restricted and other operating needs. These net assets primarily include permanent endowment funds.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Cash and cash equivalents

The College considers all highly liquid investments with a maturity of three months or fewer when purchased to be cash and cash equivalents. Cash equivalents are stated at cost, which approximates market value. Cash held for long-term investment is classified as investments or funds designated for investment in land, buildings, and equipment.

Cash and cash equivalents include bond project funds and funds related to the federal student loan program totaling \$442,933 and \$347,333 at June 30, 2018 and 2017, respectively.

Checks written on the College's zero balance accounts of approximately \$99,000 and \$192,000 are included in accounts payable and accrued expenses as of June 30, 2018 and 2017, respectively.

The College follows the common cash management practice of consolidating certain of its operating cash and cash equivalent accounts, which includes various designated and restricted current operating and plant accounts. As a result of this practice, cash and cash equivalents specifically associated with the original gift of certain designated and restricted monies can be spent from the consolidated account. When this occurs, the activity is accounted for by maintaining receivables and payables between the net asset classes. The College has sufficient unrestricted funds included in the consolidated account to cover the designated or restricted monies spent.

Accounts receivable

Accounts receivable consists of student accounts receivable, consortium receivables, grants receivable, and other receivables and are reflected at cost, less an allowance for doubtful accounts based on historical collection experience of the College, as applicable. Receivables outstanding at the end of a semester are considered past due. The College does not charge interest on outstanding balances, and receivables over two years old are written off. As of June 30, 2018 and 2017, the College had student receivables, net of allowance, from non-current semesters of approximately \$1,110,000 and \$1,035,000, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values. The fair value of investments in equities, bonds, U.S. government securities, and short-term assets is determined by reference to quoted market prices and other relevant information generated by market transactions. Net unrealized and realized gains or losses are reflected in the statements of activities.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of the gift. Purchases and sales of investments are recorded on the trade date.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Investments (Continued)

Income, and realized and unrealized net gains on investments of endowment and similar net asset classes are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income, including income earned on donor-restricted endowment funds;
- As increases in unrestricted net assets in all other cases.

The College has various investment vehicles where the carrying value fluctuates with the financial markets. As a result, the value of such investments as of the date of this report may be materially different than year-end values.

Land, buildings, and equipment

Land, buildings, and equipment are stated at cost at the date of acquisition, or fair value at the date of the gift, less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

Equipment is removed from the records and any gain or loss is recognized at the time of disposal. Expenditures for new construction, major renewals and replacements, and equipment exceeding \$5,000 are capitalized.

Construction in progress is carried at cost incurred to date and, when completed, is transferred to the appropriate land, buildings, or equipment category which is depreciated in accordance with the College's policies.

The College recognizes costs related to major maintenance activities as costs are incurred.

The College capitalizes interest costs as part of the construction costs of buildings where it relates to the financing of major projects under development.

Accrued compensation

The College accrues for salaries and all other compensation earned but not paid.

Student and other deposits

Deposits and student fees applicable to academic sessions subsequent to the current year are deferred and recognized as revenues in subsequent periods.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Notes receivable and U.S. government grants refundable

The College participates in the Federal Perkins Loan Program sponsored by the U.S. government. Under this program, funds are loaned to qualified students and may be re-loaned after collection. Student loan receivables related to this program are recorded as notes receivable. The portion of those funds contributed by the U.S. government (that is, exclusive of the College's match funds) is ultimately refundable to the government and, accordingly, are recorded as a liability (U.S. government grants refundable).

The College accounts for its notes receivable at cost and recognizes interest income as it is earned. An allowance for doubtful accounts is based on prior collection history and individual circumstances of the borrower. Notes are considered past due after 30 – 45 days and accrue interest until written off when considered uncollectible.

Split-interest agreements

The College participates in various split-interest agreements that are unconditional and irrevocable. These arrangements are established when a donor makes a gift to the College or a trust in which the College shares benefits with other beneficiaries. Generally, the College accounts for these agreements by recording its share of the related assets at fair market value (which approximates the present value of the estimated future cash receipts). Liabilities are recorded for any portion of the assets held for donors or other beneficiaries equal to the present value of the expected future payments to be made. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Contribution revenues are recognized at the dates the agreements are established for the difference between the assets and the liabilities.

If a third party is the trustee until the termination of the trust and then the remaining assets are transferred to the beneficiaries, the assets less related liabilities are included in contributions receivable. If the donor establishes a perpetual trust with a third party as trustee (the College will never receive the principal of the trust), the assets less related liabilities are included in funds held in trust by others. The fair value of funds held in trust by others is determined by the present value of estimated future cash flows.

Asset retirement obligations (AROs)

An *asset retirement obligation* is a legal liability of the College for the cost of retiring a tangible long-lived asset (e.g., a building containing asbestos) that results from the acquisition, construction, or development and/or the normal operation of the long-lived asset. A conditional ARO is a legal obligation in which the timing and/or method of retirement are conditional on a future event that may or may not be within the control of the College. The College has conditional asset retirement obligations primarily associated with fully depreciated buildings which are recorded at their estimated fair value. The liabilities are accreted each year using a risk-adjusted interest rate.

Bond issuance costs

Bond issuance costs are amortized on the straight-line basis over the term of the related financing agreement. Unamortized bond issuance costs are presented as a reduction of the carrying amount of the debt. Amortization of bond issuance costs is reported as interest expense in the statements of activities.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Net asset classifications of institutional funds

The College holds institutional funds, principally endowment funds, subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). “Endowment” is a commonly used term to refer to the resources, including trusts and annuities, that have been restricted by the donor or designated by the Board that will be invested to provide future revenue to support the College’s activities. The College’s endowment consists of approximately 40 individual funds established for a variety of purposes. As titled, UPMIFA provides guidance and applicable regulations relative to the management of applicable funds.

In response to UPMIFA, the College adopted the provisions of accounting guidance for the net asset classification of donor-restricted endowment funds for an organization that is subject to UPMIFA including the required related financial statement disclosures.

Interpretation of UPMIFA

The Board of Trustees of the College has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable, at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the College and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the College, and (7) the investment policy of the College.

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those of donor-restricted funds that organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide an average annual rate of return of approximately 2.0% plus inflation (measured by the consumer price index), net of management fees, over a rolling three-year period. Actual returns in any given year may vary from this amount.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Net asset classifications of institutional funds (Continued)

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). The College targets a diversified asset allocation that places emphasis on investments in equities and fixed income securities in the following percent target ratios to achieve its long-term return objectives within prudent risk constraints:

	Minimum	Target Average	Maximum
Total equity	55.0%	65.0%	75.0%
Domestic large growth	10.0%	17.5%	25.0%
Domestic large value	10.0	17.5	25.0
Small/medium capitalization stocks	10.0	15.0	20.0
International equity	5.0	10.0	20.0
Emerging market equity	-	5.0	10.0
Total fixed income	25.0%	35.0%	45.0%
Domestic investment grade fixed income	25.0%	35.0%	45.0%
Cash and cash equivalents	-	-	10.0

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and to increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the years ended June 30, 2018 and 2017, the Board-approved spending formula for the endowment provided for an annual spending rate of not more than 5.0% of a trailing twelve quarter moving average of the investment pool fair value. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment.

Funds with Deficiencies (“Underwater” funds)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and there were none as of June 30, 2018 and 2017.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Contributions

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions in the period the donor's commitment is received. Unrestricted, unconditional promises to give are recognized as temporarily restricted operating revenues unless the donor explicitly stipulates its use to support current period activities.

Conditional promises to give are not recognized until they become unconditional – that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fundraising activity.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Operating results

Operating activities in the statements of activities illustrate a measure of how the College is maintaining the resources available for its "current operations." Operations reflect all transactions increasing or decreasing unrestricted net assets except those of a capital nature – that is, capitalized for long-term investment or as land, buildings, and equipment. Temporarily restricted net assets released from restrictions which satisfy an operating purpose are also classified as operating.

In accordance with the College's total return policy, as described previously, only the portion of total investment return available under this policy to meet operating needs is included in operating revenues.

Additionally, the portion of total investment return available to support current operations under the College's total return policy is excluded from cash flows from operating activities; only the actual cash yield is included in cash flows from operating activities.

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon periodic inventories of facilities. Interest expense on external debt is allocated to the activities that have most directly benefited from the proceeds of the external debt. Employee and staff benefits are allocated to operating programs and supporting activities based upon salary expenses of these programs and activities.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Derivative instruments

The College utilizes a derivative financial instrument to reduce its exposure to market risks from changes in interest rates. By entering into a pay-fixed, receive-variable interest rate swap, the College limits its exposure to changes in variable interest rates. The College is exposed to credit related losses in the event of nonperformance by the counterparty to the interest rate swap; however, the counterparty is a major financial institution and the risk of loss due to nonperformance is considered remote. Interest rate differentials paid or received on the swap are recognized as adjustments to interest expense in the period earned or incurred.

The fair value of the interest rate swap agreements is the estimated amount the College would receive or pay to terminate the agreement based on reference to market rate inputs and the net present value of future cash flows as determined by the lender.

Advertising costs

The College follows the policy of charging advertising costs to expenses as incurred.

Fair value measurements

The College carries various assets and liabilities at fair value. 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. In determining fair value, a market-based approach is used which establishes that fair value is based on the “highest and best use.” Additionally, in accordance with accounting guidance, the College categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as reflected below. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities that management has the ability to access at the measurement date.

Level 2 – Fair values are based on inputs other than quoted prices in Level 1 that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that were observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Fair values are based on unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Fair value measurements (Continued)

The estimated fair value for specific groups of financial instruments is presented within the notes applicable to such items. If not specifically presented, fair value is estimated to approximate the related carrying value. It was not considered practical to determine fair value of notes receivable from students under the U.S. government loan programs and related government advances because the notes receivable are non-marketable and can only be assigned to the U.S. government or its designees. These installment notes are due over terms of 10 years with interest at 5% per annum, and are carried at face value.

Credit risk concentrations

Financial instruments which potentially subject the College to concentrations of credit risk consist principally of cash, marketable securities, and student accounts receivable and loans receivable. The College places its cash with high-credit, quality financial institutions. A portion of the College's bank deposits are in excess of federally insured limits. Concentration of credit risk for investments is limited by the College's policy of diversification of investments. Concentration of credit risk for student accounts receivable and loans receivable are limited, due to a large base and geographic dispersion.

Art collection

The College's art collection, which was acquired through purchases and contributions, is not recognized as an asset in the accompanying statements of financial position since the art is held purely for educational purposes. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors.

Income taxes

The College is exempt from federal income tax under Section 501(c)(3) of the *Internal Revenue Code*.

Subsequent events

The College has evaluated subsequent events through _____, 2018, which is the date the financial statements were available to be issued.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 2. Receivables and other assets

Receivables and other assets, net of allowance for doubtful accounts, consisted of the following as of June 30:

	2018	2017
Student receivables, net	\$ 1,998,561	\$ 2,062,700
Other receivables	1,960,725	1,958,145
Prepaid expenses	133,417	128,177
Accrued investment income	91,345	82,199
	\$ 4,184,048	\$ 4,231,221

Note 3. Contributions Receivable

Contributions receivable consisted of the following as of June 30:

	2018	2017
Unconditional promises to give cash	\$ 581,643	\$ 1,141,760
Charitable trusts held by others	702,827	687,186
	\$ 1,284,470	\$ 1,828,946
Expected to be collected in:		
Less than one year	\$ 504,675	\$ 648,777
One to five years	79,501	506,115
More than five years	1,141,644	1,107,438
	1,725,820	2,262,330
Less:		
Actuarial present value of future payments	(438,816)	(420,252)
Discount to net present value at 0.85%	(2,534)	(13,132)
	\$ 1,284,470	\$ 1,828,946

The breakdown by net asset class for contributions receivable as of June 30 was as follows:

	2018	2017
Unrestricted	\$ 26,265	\$ -
Temporarily restricted	528,378	1,084,760
Permanently restricted	729,827	744,186
	\$ 1,284,470	\$ 1,828,946

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 3. Contributions Receivable (Continued)

As of June 30, 2018 and 2017, the College received bequest intentions and certain other conditional promises to give. These intentions and certain other conditional promises to give are not recognized as assets; and, if they are received, will generally be restricted for a specific purpose stipulated by the donors, primarily, either endowments for scholarships, faculty support, or general operating support of a particular department of the College.

For the years ended June 30, 2018 and 2017, the College recorded contributions from eleven and six donors that totaled approximately 83.3% and 54.6% of contributions, respectively.

Note 4. Investments

Investments were comprised of the following as of June 30:

	2018						2017					
	Endowment		Other		Total		Endowment		Other		Total	
<u>Equities:</u>												
<u>Domestic:</u>												
Large cap growth	\$ 2,948,594	17.1%	\$ -	-%	\$ 2,948,594	9.0%	\$ 2,318,613	14.5%	\$ -	-%	\$ 2,318,613	7.3%
Large cap value	1,997,144	11.6	-	-	1,997,144	6.1	1,790,164	11.2	-	-	1,790,164	5.7
Midcap	4,755,657	27.6	-	-	4,755,657	14.5	1,008,546	6.3	-	-	1,008,546	3.2
Small cap growth	-	-	-	-	-	-	353,459	2.2	-	-	353,459	1.1
Small cap value	420,600	2.4	-	-	420,600	1.3	375,873	2.3	-	-	375,873	1.2
All cap	-	-	-	-	-	-	2,107,350	13.1	-	-	2,107,350	6.7
Mutual funds and other	-	-	1,724,977	11.0	1,724,977	5.2	-	-	2,589,790	16.6	2,589,790	8.2
Total domestic equities	10,121,995	58.7	1,724,977	11.0	11,846,972	36.1	7,954,005	49.6	2,589,790	16.6	10,543,795	33.4
<u>International and emerging markets:</u>												
International	-	-	-	-	-	-	1,213,392	7.6	-	-	1,213,392	3.8
Emerging markets	-	-	-	-	-	-	606,696	3.8	-	-	606,696	1.9
Total intern'tl. and emerging markets	-	-	-	-	-	-	1,820,088	11.4	-	-	1,820,088	5.7
Total equities	10,121,995	58.7	1,724,977	11.0	11,846,972	36.1	9,774,093	61.0	2,589,790	16.6	12,363,883	39.1
<u>Fixed income:</u>												
International	-	-	-	-	-	-	-	-	209,798	1.3	209,798	0.7
Cash and cash equivalents	-	-	7,426,769	47.3	7,426,769	22.5	-	-	5,530,461	35.4	5,530,461	17.5
All other	-	-	6,535,346	41.7	6,535,346	19.9	2,621,771	16.4	7,288,041	46.7	9,909,813	31.3
Total fixed income	-	-	13,962,115	89.0	13,962,115	42.4	2,621,771	16.4	13,028,300	83.4	15,650,072	49.5
<u>Alternative income:</u>												
Absolute return	6,457,386	37.5	-	-	6,457,386	19.6	2,806,869	17.5	-	-	2,806,869	8.9
Real assets	624,410	3.6	-	-	624,410	1.9	822,812	5.1	-	-	822,812	2.5
Total alternative income	7,081,796	41.3	-	-	7,081,796	21.5	3,629,681	22.6	-	-	3,629,681	11.4
Total investments	\$ 17,203,791	100.0%	\$ 15,687,092	100.0%	\$ 32,890,883	100.0%	\$ 16,025,545	100.0%	\$ 15,618,090	100.0%	\$ 31,643,635	100.0%

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 4. Investments (Continued)

The ownership of investments for each class of net assets as of June 30 was as follows:

	2018	2017
Unrestricted	\$ 13,151,334	\$ 7,591,494
Temporarily restricted	11,234,176	15,758,894
Permanently restricted	8,505,373	8,293,247
	\$ 32,890,883	\$ 31,643,635

The market value of investment asset classifications was as follows as of June 30:

	2018	2017
Endowment – held by College	\$ 17,203,791	\$ 16,025,545
Trusts and annuities	2,527,614	1,695,612
Current funds	13,159,478	13,922,478
	\$ 32,890,883	\$ 31,643,635

Investment activity for the years ended June 30 is reflected in the table below:

	2018	2017
Investments, beginning	\$ 31,643,635	\$ 34,517,485
Gifts and pledge payments available for investment and investment income reinvestment	1,457,479	1,334,279
	33,101,114	35,851,764
Investment returns:		
Dividends and interest (net of expenses: 2018 \$81,694; 2017 \$77,383)	764,306	800,228
Investment return, net of amount available to support current operations per statements of activities	503,503	614,804
Add spending in excess of cash yield	(12,275)	(35,870)
Net realized and unrealized gains	491,228	578,934
Total return on investments	1,255,534	1,379,162
Amounts appropriated for operations, net transfers to operational accounts, debt payments, and other activity	(1,465,765)	(5,587,291)
Investments, ending	\$ 32,890,883	\$ 31,643,635

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 4. Investments (Continued)

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

	2018	2017
Investment income	\$ 764,306	\$ 800,228
Net realized and unrealized gains on investments	491,228	578,934
Total return on investments	\$ 1,255,534	\$ 1,379,162
<u>Included in the statements of activities as follows:</u>		
Operating revenues – investment income, endowment, and other – amount distributed to support current operations pursuant to the endowment spending policy	\$ 722,665	\$ 712,775
Investment return, net of amount available to support current operations	503,503	614,804
Investment income, included in interest income – temporary investments	29,365	51,583
	\$ 1,255,534	\$ 1,379,162

Note 5. Land, Buildings, and Equipment

Land, buildings, and equipment consisted of the following at June 30:

	Estimated Useful Life	2018	2017
Buildings	65 years	\$ 63,198,044	\$ 63,198,044
Building improvements	10 – 20 years	7,658,960	7,436,734
Land improvements	50 years	1,449,447	1,449,447
Equipment	5 years	6,524,362	6,524,369
Computer equipment	5 years	3,118,951	3,067,040
		81,949,764	81,675,634
Less accumulated depreciation		(30,509,671)	(29,046,855)
		51,440,093	52,628,779
Land		83,218	83,218
		\$ 51,523,311	\$ 52,711,997

Included in equipment are assets under capital leases of \$328,200 and \$364,300 at June 30, 2018 and 2017, respectively, with related accumulated depreciation of \$235,796 and \$277,194 for 2018 and 2017, respectively.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 6. Funds Held in Trust by Others

The College is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the College. The College has legally enforceable rights and claims to income therefrom. Net realized and unrealized gains (losses) related to these interests are reported as changes in permanently restricted net assets based on explicit donor stipulations. The market value of these interests as of June 30 were as follows:

	Income Restriction	2018	2017
Claire Boothe Luce Fund	*	\$ 7,534,405	\$ 7,252,757
Helen Rotterman Trust	Unrestricted	683,814	676,307
M. Rotterman Trust	Unrestricted	2,208,723	2,176,332
Russell T. Finn Trust	Scholarships	1,083,161	1,072,414
Dougherty Scholarship Irrevocable Trust	Educational purposes	255,359	258,262
		\$ 11,765,462	\$ 11,436,072

*Scholarships, fellowships, and professorships for women in science and technology. The annual income distribution totaled \$330,000 and \$303,000 for 2018 and 2017, respectively.

Note 7. Debt

The College's debt consisted of the following as of June 30:

	2018	2017
District of Columbia Series 2014A Bonds. The bonds bear interest at variable rates determined by the marketing agent (2.43% at June 30, 2018). Interest is due monthly. The first principal payment will be made on July 1, 2014 in the amount of \$580,000. Payments after that will range from \$680,000 to the final payment amount of \$1,080,000 due on July 1, 2031. As described below, this debt is subject to an interest rate swap agreement. Proceeds were used for the sole purpose of refinancing the current existing debt on the 2001 Series Bonds, which were the funding used to complete construction of the Trinity Center for Women and Girls in Sports.	\$ 12,620,000	\$ 13,340,000

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 7. Debt (Continued)

The College's debt consisted of the following as of June 30: (Continued)

	2018	2017
<p>District of Columbia Series 2014B Bonds. The bonds bear interest at variable rates determined by the marketing agent (2.43% at June 30, 2018). Interest is due monthly. Payments on this bond will not be due until two years from the funding, as the bond operates as a drawdown instrument and is funded as expenses relating to the University Academic Center are incurred. The first payment due was the principal payment of \$535,000 on July 1, 2016. Going forward, principal payments will range from \$170,000 to the final amount of \$1,765,000 due on July 1, 2038. The total bond issuance is for \$15,000,000. As described below, this debt is subject to an interest rate swap agreement. Proceeds were used to facilitate construction of Trinity's University Academic Center, along with the funds raised by Trinity's Capital Campaign Contributions.</p>	14,480,000	14,665,000
<p>Obligations under capital leases, payable in monthly installments of \$6,478 including imputed interest ranging from 22.25% to 28.80% through April 2016. Secured by equipment.</p>	-	2,299
<p>Unsecured and interest-free obligation to Metz Culinary Management, Inc. for purchase of equipment for food service operations, payable on a straight-line basis through December 2026.</p>	765,000	855,000
<p>Unsecured and interest-free obligation to Aramark Management Services for capital improvements, payable on a straight-line basis through July 2021.</p>	154,247	204,247
<p>Leasing agreement for nine copiers/scanners from One Source/GE Capital. Obligations under this capital lease are payable in monthly installments of \$1,140 including imputed interest of 5% through August 2019. Secured by equipment.</p>	15,472	28,036

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 7. Debt (Continued)

The College's debt consisted of the following as of June 30: (Continued)

	2018	2017
Leasing agreement for eight pieces of fitness equipment with EnerG Wellness/Marlin Business Services. Obligations under this capital lease are payable in monthly installments of \$611, including imputed interest through May 2021. Secured by equipment.	10,473	14,591
Leasing agreement with Xerox for eight new leased copiers. Obligations under this capital lease are payable in monthly installments of \$398, including imputed interest at 5.00% through October 2020. Secured by equipment.	21,199	27,139
Leasing agreement for seven fitness machines for the Trinity Center. Obligations under this capital lease are payable in monthly installments of \$502 including imputed interest at 5.00% through December 2017. Secured by equipment.	-	2,919
Unamortized bond issuance costs	28,066,391 (292,833)	29,139,231 (306,833)
	\$ 27,773,558	\$ 28,832,398

(Continued)

TRINITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Debt (Continued)

Debt matures as follows:

	Debt	Amortization of Bond Issuance Costs	Total
Year ending June 30,			
2019	\$ 1,093,829	\$ (14,000)	\$ 1,079,829
2020	1,113,485	(14,000)	1,099,485
2021	1,138,617	(14,000)	1,124,617
2022	1,120,460	(14,000)	1,106,460
2023	1,140,000	(14,000)	1,126,000
2024 and thereafter	22,460,000	(222,833)	22,237,167
	\$ 28,066,391	\$ (292,833)	\$ 27,773,558

The College is party to the following interest rate swap agreements designed to manage the College's interest costs and risks associated with variable rate debt.

Related Debt	Expiration Date	Pay Fixed Rate	Received Variable Rate	Notional Amount (In Millions)		Fair Value	
				2018	2017	2018	2017
DC Series 2014A	June 2026	2.836%	IM LIBOR	\$ 12.6	\$ 13.3	\$ 78,383	\$ (310,534)
DC Series 2014B	June 2026	3.275%	IM LIBOR	\$ 14.5	\$ 14.7	(310,652)	(893,537)
						\$ (232,269)	\$ (1,204,071)

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 7. Debt (Continued)

The College has exposure to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the College does not anticipate nonperformance.

The difference between the floating rate and the fixed rate interest is recognized as an adjustment to interest expense in the period incurred. The fair value of the swap agreement is estimated based on current settlement prices and is included in the statements of financial position. The change in value of the interest rate swap has been reflected in the non-operating section of the statements of activities.

Interest expense for the years ended June 30 was as follows:

	2018	2017
Expensed	\$ 846,350	\$ 871,185
Amortization of bond issuance costs	14,000	14,000
Capitalized	3,258	4,536
	\$ 863,608	\$ 889,721

Pursuant to the District of Columbia, Series 2014 revenue bond agreement, the College is subject to certain debt covenants; the most restrictive of which is the requirement to maintain a minimum debt service coverage ratio of 1.25 to 1.00. As of June 30, 2018 and 2017, the College has met those requirements. The other major covenant requires the College to maintain unencumbered unrestricted liquidity (UUL) on hand of \$15,000,000. For the years ended 2018 and 2017, the College has met these requirements.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 8. Net Assets

Net assets as of June 30 consisted of the following:

	2018	2017
Unrestricted		
Investment in land, buildings, and equipment, net of debt	\$ 21,826,064	\$ 21,035,438
Other	38,240,820	33,826,926
	60,066,884	54,862,364
Temporarily restricted		
Accumulated endowment investment return, net of amounts spent	8,157,349	7,732,298
Amounts held for trust and annuity payments	25,695	26,157
Restricted for future operations	180,971	415,136
Restricted for public service expenses	148,381	130,792
Restricted for buildings and equipment	620,667	885,724
Contributions receivable	528,378	1,084,760
	9,661,441	10,274,867
Permanently restricted		
Restricted in perpetuity; only the income is expendable:		
Endowment principal	8,505,373	8,293,247
Contributions receivable	729,827	744,186
Funds held in trust by others	11,765,462	11,436,072
	21,000,662	20,473,505
Total net assets	\$ 90,728,987	\$ 85,610,736

Temporarily restricted net assets are subject to both purpose and time restrictions. Temporarily restricted accumulated endowment investment return, net of amounts spent, is restricted for future operations, financial aid and maintenance, and acquisition of land, buildings, and equipment. Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support future operations, financial aid, and maintenance and acquisition of land, buildings, and equipment.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 9. Tuition and Fees, Net of Financial Aid

Tuition and fees include regular session tuition for the College’s undergraduate and graduate regular and summer sessions as well as miscellaneous fees such as application, graduation, lab, and late fees.

Undergraduate tuition and fees totaled 78.5% and 77.4% of total tuition and fees for 2018 and 2017, respectively. Financial aid for undergraduates totaled \$11,340,310 and \$10,645,495, respectively, with the unfunded portion of these amounts totaling 33.4% and 33.6%, respectively, of undergraduate tuition and fees.

Note 10. Net Assets Released from Restrictions and Reclassifications

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes, or by occurrence of other events as specified by donors. Restrictions were satisfied as follows for the years ended June 30:

	2018	2017
Operating:		
Financial aid	\$ 1,760,897	\$ 1,366,720
Instructional expenses	440,910	357,267
Student services	21,549	15,673
Academic support	716,822	243,234
Public service expenses	12,494	13,201
Total operating	2,952,672	1,996,095
Non-operating:		
Plant expenses	870,961	5,597,571
Total non-operating	870,961	5,597,571
	\$ 3,823,633	\$ 7,593,666

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Operating Expenses

Functional expenses, as reported on the statements of activities, are expenses in natural classification. The most significant expense under a natural classification is compensation and employee benefits (including payroll taxes) which totals 53.0% and 8.4%, respectively for 2018 and 51.3% and 8.1%, respectively for 2017. A more extensive breakdown of expenses by natural classification can be found in the College’s annual federal tax-exempt Form 990 return. Program service expenses totaled 73.4% and 71.0% in 2018 and 2017, respectively.

Costs related to the operations and maintenance of the physical plant, including depreciation and interest expense, were allocated to operating programs and supporting activities for June 30, as follows:

	2018			2017		
	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses
Education and general:						
Instruction	\$ 10,163,606	\$ 1,596,424	\$ 11,760,030	\$ 9,040,402	\$ 1,489,777	\$ 10,530,179
Public service	20,723	-	20,723	11,031	-	11,031
Academic support	3,030,089	319,285	3,349,374	3,238,770	297,955	3,536,725
Student services	3,412,909	1,424,764	4,837,673	3,271,227	1,336,306	4,607,533
Institutional support	7,481,167	1,277,138	8,758,305	8,073,778	1,191,821	9,265,599
Auxiliary services	2,170,989	2,063,334	4,234,323	2,072,968	1,932,217	4,005,185
Operations and maintenance						
of physical plant	4,353,200	(4,353,200)	-	4,205,743	(4,205,743)	-
Depreciation and amortization	1,481,395	(1,481,395)	-	1,171,148	(1,171,148)	-
Interest expense	846,350	(846,350)	-	871,185	(871,185)	-
	<u>\$ 32,960,428</u>	<u>\$ -</u>	<u>\$ 32,960,428</u>	<u>\$ 31,956,252</u>	<u>\$ -</u>	<u>\$ 31,956,252</u>

Fundraising costs totaled approximately \$611,000 and \$535,000 for the years ended June 30, 2018 and 2017, respectively.

Note 12. Employee Benefits

Retirement benefits are provided for eligible faculty and staff employees by a contributory pension plan for annuity contracts with Teachers Insurance and Annuity Association and College Retirement Equities Fund. Employees are eligible after one year of full-time employment and attaining the age of twenty-one. All participants have a fully vested interest in the total contributions made on their behalf. The College automatically contributes 2% of all eligible employees’ base salary, and matches an additional voluntary contribution of up to 6%. Under the plan, the College contributed approximately \$447,500 and \$451,700 in 2018 and 2017, respectively, which was charged to operating expenses.

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Operating Leases

The College leases several copiers and a mailing system under non-cancelable leases expiring through March 2020. Rent expense under these operating leases was \$45,664 and \$49,199 for 2018 and 2017, respectively.

Future minimum lease payments under all operating leases for the years ending June 30 were as follows:

2019		\$	45,996
2020			44,624
2021			37,764
2022			27,468
2023			5,580
			5,580
		\$	161,432

Note 14. Commitments and Contingencies

Final expenditure reports of grants and contracts submitted to certain granting agencies in current and prior years are subject to audit by such agencies. As a result, the reimbursed expenditures are subject to adjustment. The effect of such adjustments, if any, is not determinable at this time. Management is of the opinion that the liability, if any, would not have a material effect on the College's financial position.

The College's students receive a substantial amount of support from state and federal student financial assistance programs. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on the College's programs and activities.

The College is under a long-term contract with Metz Culinary Management, Inc. to provide food service. The initial term of the agreement ends January 1, 2027, and the agreement will renew automatically for consecutive terms of one year each. Upon expiration, termination, or cancellation of the contract the College shall reimburse the provider the remaining balance of unamortized capital expenditures included in debt in the statements of financial position.

The College is under a long-term contract with Aramark Management Services to provide facilities management through July 31, 2021. As part of this contract, Aramark advanced the College \$500,000 to be used for capital improvements which will be amortized on a straight-line basis over the term. The unamortized advance at June 30, 2018 and 2017 totaled \$154,247 and \$204,247, respectively, and is included in debt in the statements of financial position. The agreement also provides that if terminated, the College must repay the unamortized advance with interest at prime plus 2%.

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 15. Endowment

Endowment net assets as of June 30 consisted of the following:

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds held by the College:								
Donor-restricted	\$ -	\$ 8,157,349	\$ 9,235,200	\$ 17,392,549	\$ -	\$ 7,732,298	\$ 9,037,433	\$ 16,769,731
Donor-restricted funds held in trust by others	-	-	11,765,462	11,765,462	-	-	11,436,072	11,436,072
Total	<u>\$ -</u>	<u>\$ 8,157,349</u>	<u>\$ 21,000,662</u>	<u>\$ 29,158,011</u>	<u>\$ -</u>	<u>\$ 7,732,298</u>	<u>\$ 20,473,505</u>	<u>\$ 28,205,803</u>

Changes in endowment net assets for the year ended June 30 were as follows:

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2017	\$ -	\$ 7,732,298	\$ 20,473,505	\$ 28,205,803	\$ -	\$ 6,659,865	\$ 19,496,125	\$ 26,155,990
Investment return:								
Investment income	-	332,408	-	332,408	-	313,105	-	313,105
Realized and unrealized gains	-	845,839	-	845,839	-	908,087	-	908,087
Total investment return	-	1,178,247	-	1,178,247	-	1,221,192	-	1,221,192
Contributions	-	7,354	182,126	189,480	-	108,519	205,758	314,277
Appropriation for expenditure and other expenses	-	(760,550)	-	(760,550)	-	(257,278)	-	(257,278)
Change in value of funds held in trust by others	-	-	329,390	329,390	-	-	704,899	704,899
Change in value of charitable remainder trust	-	-	15,641	15,641	-	-	66,723	66,723
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 8,157,349</u>	<u>\$ 21,000,662</u>	<u>\$ 29,158,011</u>	<u>\$ -</u>	<u>\$ 7,732,298</u>	<u>\$ 20,473,505</u>	<u>\$ 28,205,803</u>

(Continued)

TRINITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 16. Fair Value Measurements

The following is a summary of the inputs used in determining the fair values of financial assets and liabilities measured on a recurring basis as of June 30:

	<u>2018</u>				<u>2017</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:								
Investments:								
Domestic equities	\$ 11,846,972	\$ 11,846,972	\$ -	\$ -	\$ 10,543,795	\$ 10,543,795	\$ -	\$ -
International equities	-	-	-	-	1,213,392	1,213,392	-	-
Emerging markets	-	-	-	-	606,696	606,696	-	-
Global bonds	-	-	-	-	209,798	209,798	-	-
Cash and equivalents and temporary investments	7,426,769	7,426,769	-	-	5,530,461	5,530,461	-	-
Fixed income, all other	6,535,346	6,535,346	-	-	9,909,813	9,909,813	-	-
Absolute return	6,457,386	6,457,386	-	-	2,806,869	2,806,869	-	-
Real assets	624,410	624,410	-	-	822,812	822,812	-	-
Total investments	<u>32,890,883</u>	<u>32,890,883</u>	<u>-</u>	<u>-</u>	<u>31,643,636</u>	<u>31,643,636</u>	<u>-</u>	<u>-</u>
Charitable trusts held by others	702,827	-	702,827	-	687,186	-	687,186	-
Funds held in trust by others	11,765,462	-	4,231,057	7,534,405	11,436,072	-	4,183,315	7,252,757
Total financial assets	<u>\$ 45,359,172</u>	<u>\$ 32,890,883</u>	<u>\$ 4,933,884</u>	<u>\$ 7,534,405</u>	<u>\$ 43,766,894</u>	<u>\$ 31,643,636</u>	<u>\$ 4,870,501</u>	<u>\$ 7,252,757</u>
Financial liabilities:								
Fair value of interest rate swap agreements	<u>\$ 232,269</u>	<u>\$ -</u>	<u>\$ 232,269</u>	<u>\$ -</u>	<u>\$ 1,204,071</u>	<u>\$ -</u>	<u>\$ 1,204,071</u>	<u>\$ -</u>
Total financial liabilities	<u>\$ 232,269</u>	<u>\$ -</u>	<u>\$ 232,269</u>	<u>\$ -</u>	<u>\$ 1,204,071</u>	<u>\$ -</u>	<u>\$ 1,204,071</u>	<u>\$ -</u>

The fair value of investments in common stocks, bonds, and mutual funds are determined based upon quoted market prices. The fair value of contributions receivable is based on the fair value of estimated future cash flows. The fair value of funds held in trust is based on quoted market prices of the securities held in the respective trusts. The fair value of the interest rate swap agreement is estimated based on current settlement prices.

The following is a reconciliation of Level 3 funds held in trust by others for which significant unobservable inputs were used to determine fair value as of June 30:

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 7,252,757	\$ 6,699,177
Net change in value	281,648	553,580
Balance, ending	<u>\$ 7,534,405</u>	<u>\$ 7,252,757</u>

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NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 17. Pending Pronouncements

Presentation of not-for-profit financial statements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets, as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 will be effective for the College on July 1, 2018, and will be applied on a retrospective basis in the year that the update is first applied.

Revenue from contracts with customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and most industry-specific accounting guidance. Additionally, ASU 2014-09 supersedes some guidance included in ASC 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of ASC 360, *Property, Plant, and Equipment*, and intangible assets within the scope of ASC 350, *Intangibles – Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. In July 2015, the FASB approved to defer the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods therein.

Lease accounting

On February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that lessees recognize all leases (other than leases with a term of twelve months or fewer) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of current guidance, including identifying a lease and lease classification criteria as well as the lessor accounting model, including guidance on separating components of a contract and consideration in the contract. The amendments in ASU 2016-02 will be effective for the College on July 1, 2020, and will require modified retrospective application as of the beginning of the earliest period presented in the financial statements. Early application is permitted.