GOUCHER COLLEGE

Financial Statements and Schedule

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

GOUCHER COLLEGE

Table of Contents

KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Trustees
Goucher College:

We have audited the accompanying financial statements of Goucher College (the College), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goucher College as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedule I is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

October 21, 2013

GOUCHER COLLEGE

Statements of Financial Position

June 30, 2013 and 2012

(In thousands)

Assets		2013	2012
Cash	$	9,913	9,539
Accounts and loans receivable, net		6,510	4,519
Contributions receivable, net		1,971	4,537
Deposits with bond trustee		495	2,271
Investments		199,008	191,038
Split interest agreements		9,812	8,523
Investment in plant assets, net		134,727	128,690
Other assets		1,109	929
Total assets	$	363,545	350,046
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	8,022	5,875
Deferred revenues and deposits		3,603	3,559
Payables under split interest agreements		1,094	1,196
Long-term debt		74,383	75,687
Obligation under interest rate swap agreements		6,769	9,846
Refundable advances from U.S. government		2,432	2,391
Other liabilities		2,842	3,635
Total liabilities		99,145	102,189
Net assets:			
Unrestricted		89,218	85,014
Temporarily restricted		94,515	83,678
Permanently restricted		80,667	79,165
Total net assets		264,400	247,857
Total liabilities and net assets	$	363,545	350,046

See accompanying notes to financial statements.

GOUCHER COLLEGE

Statement of Activities

Year ended June 30, 2013
(with comparable totals for the year ended June 30, 2012)

(In thousands)

	2013				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2012 Total**
Revenues, gains, and support:					
Tuition and fees, net of student aid of $23,873 in 2013 and $20,515 in 2012	$ 33,621	—	—	33,621	33,225
Government appropriations	2,035	3,000	—	5,035	2,712
Contributions	6,789	1,199	1,094	9,082	11,305
Investment income	39	—	3	42	61
Auxiliary enterprises	14,393	—	—	14,393	13,669
Other sources	1,284	—	—	1,284	1,603
Endowment assets appropriated for expenditure	7,815	1,028	—	8,843	9,236
Net assets released from restrictions	1,716	(1,716)	—	—	—
Total revenues, gains, and support	67,692	3,511	1,097	72,300	71,811
Expenses:					
Instruction and departmental research	29,405	—	—	29,405	29,379
General administration	11,029	—	—	11,029	10,716
Student services	9,331	—	—	9,331	9,287
Library	2,296	—	—	2,296	2,314
Auxiliary enterprises	14,506	—	—	14,506	14,544
Total expenses	66,567	—	—	66,567	66,240
Excess of revenues, gains, and support over expenses	1,125	3,511	1,097	5,733	5,571
Other:					
Change in fair value of interest rate swap agreements	3,077	—	—	3,077	(3,306)
Net realized and unrealized gains (losses) on investments, net of amounts appropriated for expenditure	2,482	7,378	405	10,265	(8,766)
Realized loss on the early extinguishment of long-term debt	(2,532)	—	—	(2,532)	—
Net assets released from restrictions for investment in plant assets	52	(52)	—	—	—
Change in net assets	4,204	10,837	1,502	16,543	(6,501)
Net assets at beginning of year	85,014	83,678	79,165	247,857	254,358
Net assets at end of year	$ 89,218	94,515	80,667	264,400	247,857

See accompanying notes to financial statements.

GOUCHER COLLEGE

Statement of Activities

Year ended June 30, 2012

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and support:				
Tuition and fees, net of student aid of $20,515 in 2012	$ 33,225	—	—	33,225
Government appropriations	2,712	—	—	2,712
Contributions	2,747	6,120	2,438	11,305
Investment income	59	—	2	61
Auxiliary enterprises	13,669	—	—	13,669
Other sources	1,603	—	—	1,603
Endowment assets appropriated for expenditure	8,186	1,050	—	9,236
Net assets released from restrictions	1,939	(1,939)	—	—
Total revenues, gains, and support	64,140	5,231	2,440	71,811
Expenses:				
Instruction and departmental research	29,379	—	—	29,379
General administration	10,716	—	—	10,716
Student services	9,287	—	—	9,287
Library	2,314	—	—	2,314
Auxiliary enterprises	14,544	—	—	14,544
Total expenses	66,240	—	—	66,240
Excess revenues, gains, and support over (under) expenses	(2,100)	5,231	2,440	5,571
Other:				
Change in fair value of interest rate swap agreements	(3,306)	—	—	(3,306)
Net realized and unrealized losses on investments, net of amounts appropriated for expenditure	(2,788)	(5,688)	(290)	(8,766)
Net assets released from restrictions for investment in plant assets	615	(615)	—	—
Change in net assets	(7,579)	(1,072)	2,150	(6,501)
Net assets at beginning of year	92,593	84,750	77,015	254,358
Net assets at end of year	$ 85,014	83,678	79,165	247,857

See accompanying notes to financial statements.

GOUCHER COLLEGE

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities:			
Tuition and auxiliary enterprises receipts	$	48,315	47,563
Government appropriations		2,301	2,601
Contributions received for operating purposes		7,499	3,540
Investment income		2,152	2,079
Other sources		1,069	1,611
Payments to employees and suppliers		(56,080)	(56,910)
Interest paid		(3,857)	(3,321)
Net cash provided by (used in) operating activities		1,399	(2,837)
Cash flows from investing activities:			
Purchases of investments		(79,605)	(21,954)
Proceeds from sales and maturities of investments		87,542	27,692
Purchases of property and equipment		(11,353)	(3,196)
Student loan disbursements		(107)	(178)
Student loan principal payments		275	342
(Increase) decrease in deposits with bond trustee, net		(77)	94
Net cash (used in) provided by investing activities		(3,325)	2,800
Cash flows from financing activities:			
Proceeds from contributions restricted for long-term investment		4,149	6,497
Investment income reinvested – restricted funds		18	18
Proceeds from bond issue		74,444	—
Cash paid for bond issuance costs		(577)	—
Payments of bonds payable		(75,775)	(3,255)
Increase in refundable advances from U.S. government, net		41	27
Net cash provided by financing activities		2,300	3,287
Net increase in cash		374	3,250
Cash at beginning of year		9,539	6,289
Cash at end of year	$	9,913	9,539

See accompanying notes to financial statements.

(Continued)

GOUCHER COLLEGE

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Reconciliation of change in net assets to net cash provided by (used in) operating activities:			
Change in net assets	$	16,543	(6,501)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation of property and equipment		6,675	6,853
Net realized and unrealized (gains) losses on investments		(17,298)	1,550
Change in fair value of interest rate swap agreements		(3,077)	3,306
Realized loss on early extinguishment of debt		2,532	—
Amortization of bond discount, premium and deferred bond costs		(40)	40
Amortization of asset retirement obligation		117	111
Contributions restricted for long-term investment		(1,094)	(2,438)
Investment income reinvested – restricted funds		(18)	(18)
(Increase) decrease in accounts receivable, net		(2,159)	571
Increase in contributions receivable and split interest agreements, net		(489)	(5,295)
Increase in accounts payable and accrued liabilities, deferred revenues, deposits, and other liabilities		(78)	(970)
Change in other assets, net		(215)	(46)
Net cash provided by (used in) operating activities	$	1,399	(2,837)
Supplemental noncash disclosure:			
Accounts payable relating to property and equipment purchases	$	2,336	211

See accompanying notes to financial statements.

(1) Business and Summary of Significant Accounting Policies

(a) General

Goucher College (Goucher or the College) is a private, nonprofit institution of higher education based in Baltimore, Maryland. The College provides education and training services to approximately 2,300 students, primarily at the undergraduate level. The majority of full-time students live on campus during the academic year. The College is governed by a Board of Trustees (the Board) assembled from a diverse community of volunteers with experience in finance, business management, government, and education.

(b) Basis of Presentation

Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College are classified and reported as follows:

Unrestricted – Net assets not subject to donor-imposed stipulations

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

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (*i.e.*, the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Contributions with restrictions met in the same reporting period are recorded in the unrestricted net asset class. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Clarifications of donor intentions are presented as reclassifications between the applicable classes of net assets in the year known. The College presents the change in the fair value of interest rate swap agreements, realized and unrealized gains or losses on investments of the endowment (net of amounts appropriated for expenditure), and the amounts released from restrictions for investment in plant assets in the statements of activities in the other category.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Significant items subject to such estimates and judgments include valuation allowances for receivables, actuarial assumptions related to annuities, and the fair values of investments. Actual results could differ from those estimates.

(Continued)

(d) Contributions

Contributions received, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Unconditional promises to give are recognized initially at fair value giving consideration to anticipated future cash receipts and discounting such amounts at a risk-adjusted rate (level 3 in the fair value hierarchy). Amortization of the discount is recorded as contributions revenue. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Allowance is made for uncollectible contributions based upon management's judgment and analysis of the credit-worthiness of the donors, past collection experience, and other relevant factors.

(e) Investments

Investments are stated at fair value, which is generally determined based on quoted market prices. Investments in common collective trust funds, limited partnership interests, and hedge funds (collectively, alternative investments) are stated at estimated fair value based upon the funds' net asset value or their equivalents as a practical expedient, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. As of June 30, 2013 and 2012, the College had no plans or intentions to sell investments at amounts different from net asset value. The estimated fair values are reported by the general partners or fund managers and are reviewed and evaluated by the College. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments and the differences could be significant. Investment transactions are accounted for on a trade date basis. Realized gains and losses on sales of securities are determined using the average cost method.

Investments are exposed to certain risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term and these changes could materially affect the amounts reported in the accompanying financial statements.

(f) Deposits with Bond Trustee

Deposits with bond trustee consist of debt service funds. These funds are invested primarily in short-term, highly liquid securities, and will be used for payment of debt service.

(g) Split Interest Agreements

Split interest agreements consist of irrevocable charitable remainder trusts and perpetual trusts held by others. At the dates these trusts are established, split interest agreements and contributions revenue is recognized at the present value of the estimated future benefits to be received. The split interest agreements are adjusted during the term of the trusts for changes in the value of assets and other changes in the estimates of future benefits, and such changes are recognized as net realized and unrealized gains on investments in the statements of activities.

The College is also trustee of certain assets under split interest agreements, which provide for payments to the donors or their beneficiaries of income earned on related investments or specified annuity amounts. Assets held under these agreements are included in investments. Contributions

(Continued)

revenue is recognized at the dates of the agreements, after providing for the present value of future annuity payments. The change in value of split interest agreements is included in net realized and unrealized gains on investments in the statements of activities.

As of June 30, 2013, the College had $963,000 of gift annuity liabilities recorded in payables under split interest agreements and $1,726,000 of corresponding investments that have been separately invested, as required by the state of Maryland. Gift annuity liabilities and related assets as of June 30, 2012 were $1,067,000 and $1,628,000, respectively.

(h) Investment in Plant Assets

Investment in plant assets is stated at cost if purchased or at estimated fair value at the date of gift, if donated. Depreciation of the College's plant assets is computed using the straight-line method over 40 years for buildings; 20 years for land and building improvements; and 5 to 20 years for computer equipment, furniture, other equipment, and library books. Depreciation expense was approximately $6,675,000 and $6,853,000 in 2013 and 2012, respectively. Repairs and maintenance costs are expensed as incurred.

(i) Tuition and Student Financial Aid Programs

Tuition revenue is recognized as services are rendered. Cash payments received in advance of services are deferred.

The College provides financial aid to eligible students, generally in a "package" that includes loans, compensation under work-study programs, and/or grant and scholarship awards. The loans are provided primarily through programs of the United States government (including direct and guaranteed loan programs) under which the College is responsible only for certain administrative duties. The grants and scholarships include awards provided through gifts and grants from private donors or from income earned on endowment funds restricted for student aid, as well as general funds scholarship awards. Grant and scholarship awards are netted against tuition and fees revenue.

Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collection. Such funds are ultimately refundable to the government. Approximately 19% of tuition and room and board revenues in 2013 and 2012, respectively, were funded by federal student financial aid programs (including loan, grant, and work-study programs).

(j) Functional Expenses

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities. Total fund-raising expenses, which are included in the general administration category, were approximately $2,866,000 and $2,925,000 in 2013 and 2012, respectively.

(k) Tax Status

The College is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, the College is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. No provision for income taxes was required for 2013 or 2012.

Management has analyzed the tax positions taken by the College, and has concluded that as of June 30, 2013 and 2012 there are no uncertain positions taken or expected to be taken that would require recognition or disclosure in the accompanying financial statements. The College is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax period in progress.

(l) Derivative Instruments

The College makes limited use of interest rate swap agreements to manage interest rate risk associated with variable rate debt. Under the interest rate swap agreements, the College and the counterparties agree to exchange the difference between fixed-rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less. Amounts receivable or payable under swap agreements are accounted for as adjustments to interest expense on the related debt. The fair value of the swaps is presented as an asset or liability on the statements of financial position. The change in the fair value of the swap is recognized in the statements of activities.

Parties to interest rate exchange agreements are subject to market risk for changes in interest rates and risk of credit loss in the event of nonperformance by the counterparty. The agreements include a cross-default provision should the counterparty commit an act of default under certain circumstances.

(m) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation.

(2) Accounts and Loans Receivable

Accounts and loans receivable, net are summarized as follows as of June 30 (in thousands):

		2013	2012
Loans to students	$	2,221	2,389
Amounts receivable from federal, state, and local governments		3,636	902
Accounts receivable from students		571	673
Accrued investment income		—	318
Other		138	282
		6,566	4,564
Less allowance for doubtful accounts receivable		56	45
	$	6,510	4,519

(3) Contributions Receivable

Contributions receivable, net are summarized as follows as of June 30 (in thousands):

		2013	2012
Unconditional promises expected to be collected in:			
Less than one year	$	845	2,660
One year to five years		1,221	1,991
Thereafter		75	158
		2,141	4,809
Less:			
Allowance for uncollectible pledges		132	202
Unamortized discount (interest rates ranging from 0.4% to 5.1%)		38	70
	$	1,971	4,537

As of June 30, 2013 and 2012, approximately 56% and 63%, respectively, of the contributions receivable was due from five donors. Approximately 60% and 47%, respectively, of contributions revenue for 2013 and 2012 was received from five donors.

(4) Fair Value Measurements

The fair value of the College’s financial instruments is determined based on the amount that would be received if an asset were sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date assuming the transaction occurs in the asset’s principal (or most advantageous) market. Those fair value measurements maximize the use of observable inputs.

(Continued)

The three levels of the fair value hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Investments and deposits with bond trustee: The fair value of fixed income securities and equity mutual funds are determined using quoted market prices at the reporting date multiplied by the quantity on hand. The carrying amount of money market funds approximates the fair value because of the short maturity of these investments. The fair value of the College's alternative investments are reported at the net asset value reported by the fund managers or general partners, which is used as a practical expedient to estimate the fair value of the College's interest therein.

Alternative investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the College's interest therein, its classification as Levels 1, 2, or 3 is based on the College's ability to redeem its interest at or near June 30. If the College has the ability to redeem its interest at net asset value or its equivalent daily, it is classified as Level 1. If the College has the ability to redeem its interest at net asset value or its equivalent within three months of June 30, the investment is classified as Level 2. All other alternative investments are classified as Level 3. The classification of alternative investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Split interest agreements: The fair value is determined as the present value of future cash flows discounted at an interest rate that reflects the risks inherent in those cash flows (1.4% at June 30, 2013). For remainder trusts, cash flows are based on the contractual payout rates of the agreements over a time period determined based on the current age of the annuitants and Table 2000CM mortality tables. See note 1(g).

Interest rate swaps: The fair value is determined using pricing models developed based on the contractual terms of the swaps (note 7), the current LIBOR swap rate, and other observable market data. The value is adjusted to reflect nonperformance risk of the counterparty or the College.

The following table presents assets and liabilities, which are measured on a recurring basis at fair value, as of June 30, 2013 (in thousands):

		Level 1	Level 2	Level 3	Total
Financial assets:					
Investments:					
Cash and short-term investments held by managers	$	517	—	—	517
Fixed income securities:					
U.S. Treasuries		209	—	—	209
Other		—	446	—	446
Total fixed income securities		209	446	—	655
Equity mutual funds:					
Non-U.S. developed markets		32,117	—	—	32,117
Global all asset		9,207	—	—	9,207
U.S. Treasuries		9,663	—	—	9,663
Corporate fixed income		8,792	—	—	8,792
Emerging markets		3,595	—	—	3,595
Commodities		5,930	—	—	5,930
Other		1,148	—	—	1,148
Total equity mutual funds		70,452	—	—	70,452
Common collective trust funds:					
U.S. equities		35,272	4,981	—	40,253
U.S. Treasuries		6,183	—	—	6,183
Non-U.S. developed markets		—	5,783	—	5,783
Foreign government fixed income		—	9,342	—	9,342
Emerging markets		—	5,360	—	5,360
Commodities		—	4,972	—	4,972
Total common collective trust funds		41,455	30,438	—	71,893

(Continued)

		Level 1	Level 2	Level 3	Total
Hedge funds:					
Long and short	$	—	10,248	—	10,248
Absolute return		—	10,016	—	10,016
Covered options		—	6,149	—	6,149
Total hedge funds		—	26,413	—	26,413
Limited partnership interests:					
Private equity		—	—	12,012	12,012
Venture capital		—	—	9,338	9,338
Private real estate and resources		—	—	7,728	7,728
Total limited partnership interests		—	—	29,078	29,078
Total investments		112,633	57,297	29,078	199,008
Deposits with bond trustee		495	—	—	495
Split interest agreements		—	—	9,812	9,812
Total financial assets	$	113,128	57,297	38,890	209,315
Financial liabilities:					
Interest rate swaps	$	—	(6,769)	—	(6,769)
Total financial liabilities	$	—	(6,769)	—	(6,769)

The following table presents assets and liabilities, which are measured on a recurring basis at fair value, as of June 30, 2012 (in thousands):

		Level 1	Level 2	Level 3	Total
Financial assets:					
Investments:					
Cash and short-term investments held by	$	448	—	—	448
Fixed income securities:					
U.S. Treasuries		7,267	—	—	7,267
Foreign government		—	17,851	—	17,851
Corporate		—	5,236	—	5,236
Other		—	135	—	135
Total fixed income securities		7,267	23,222	—	30,489

	Level 1	Level 2	Level 3	Total
Equity mutual funds:				
Non-U.S. developed markets	$ 26,222	—	—	26,222
U.S. Treasuries	11,450	—	—	11,450
Commodities	2,789	—	—	2,789
Other	1,054	—	—	1,054
Total equity mutual funds	41,515	—	—	41,515
Common collective trust funds:				
U.S. equities	36,829	3,994	—	40,823
Non-U.S. developed markets	—	7,509	—	7,509
Emerging markets	—	4,928	—	4,928
Commodities	—	7,708	—	7,708
Total common collective trust funds	36,829	24,139	—	60,968
Hedge funds:				
Long and short	—	12,761	—	12,761
Absolute return	—	9,083	—	9,083
Covered options	—	5,598	—	5,598
Total hedge funds	—	27,442	—	27,442
Limited partnership interests:				
Private equity	—	—	12,850	12,850
Venture capital	—	—	9,885	9,885
Private real estate and resources	—	—	7,441	7,441
Total limited partnership interests	—	—	30,176	30,176
Total investments	86,059	74,803	30,176	191,038
Deposits with bond trustee	574	1,697	—	2,271
Split interest agreements	—	—	8,523	8,523
Total financial assets	$ 86,633	76,500	38,699	201,832
Financial liabilities:				
Interest rate swaps	$ —	(9,846)	—	(9,846)
Total financial liabilities	$ —	(9,846)	—	(9,846)

The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2013 and 2012 (in thousands):

		Limited partnership interests				
		Private equity	**Venture capital**	**Private real estate and resources**	**Split interest agreements**	**Total**
Ending balance, June 30, 2011	$	13,313	9,551	6,748	8,962	38,574
Total gains and losses included in changes in net assets:						
Investment income (loss), net of fees		(1)	(190)	13	77	(101)
Net realized and unrealized gains (losses)		560	765	347	(301)	1,371
Calls		1,211	1,047	599	—	2,857
Distributions		(2,233)	(1,288)	(266)	(215)	(4,002)
Ending balance, June 30, 2012		12,850	9,885	7,441	8,523	38,699
Total gains and losses included in changes in net assets:						
Investment income (loss), net of fees		97	(205)	35	120	47
Net realized and unrealized gains		788	660	624	1,334	3,406
Calls		728	724	570	—	2,022
Distributions		(2,451)	(1,726)	(942)	(165)	(5,284)
Ending balance, June 30, 2013	$	12,012	9,338	7,728	9,812	38,890

There were no transfers between levels in 2013 or 2012.

(5) Investments

Investments, which are presented by investment class in note 4, are professionally managed by outside investment organizations subject to direction and oversight by a committee of the Board. The Board has established investment policies and guidelines that cover asset allocation and performance objectives and impose various restrictions and limitations on the managers. These restrictions and limitations are specific to each asset classification and cover concentrations of market risk (at both the individual issuer and industry group levels), credit quality of fixed income and short-term investments, and various other matters.

Investment return is summarized as follows (in thousands):

		2013	2012
Income from interest and dividends	$	2,700	2,903
Net realized and unrealized gains (losses) on investments		17,298	(1,550)
Investment fees		(848)	(822)
Total investment return	$	19,150	531

Investment return is included in the statements of activities as follows:

		2013	2012
Revenues, gains, and support	$	8,885	9,297
Other		10,265	(8,766)
Total investment return	$	19,150	531

Consistent with its investment policies and guidelines, the College invests in a variety of strategies with varying degrees of liquidity including daily, monthly, quarterly, and illiquid investments. As of June 30, 2013, the majority of the College’s portfolio was redeemable either on a daily or monthly basis, and investments aggregating $49,343,000 were illiquid or redeemable on a quarterly basis.

The table below summarizes investments for which net asset value has been used to estimate fair value as a practical expedient, as well as the investee strategies, redemptions, and unfunded commitments related to such investments at June 30, 2013 and 2012:

Investment	Fair value 2013	Fair value 2012	Remaining average life of the funds as of June 30, 2013	Unfunded commitments 2013	Unfunded commitments 2012	Redemption frequency (if currently eligible)	Redemption notice period
Common collective trust funds (a)	$ 71,893	60,968	N/A	$ N/A	N/A	Daily or monthly	1-30 days
Hedge funds:							
Long and short (b)	10,248	12,761	N/A	N/A	N/A	Quarterly	45 days
Absolute return (c)	10,016	9,083	N/A	N/A	N/A	Quarterly	65 days
Covered options (d)	6,149	5,598	N/A	N/A	N/A	Monthly	5 days
Limited partnership interests:							
Private equity (e)	12,012	12,850	3.7 years	3,251	4,498	N/A	N/A
Venture capital (f)	9,338	9,885	3.9 years	5,024	5,704	N/A	N/A
Private real estate and resources (g)	7,728	7,441	6.8 years	1,966	2,536	N/A	N/A
	$ 127,384	118,586		$ 10,241	12,738		

(a) This category includes investments in common trust funds that seek capital appreciation by investing in a variety of domestic or foreign equity instruments with small and large market capitalizations, fixed income securities, and a variety of commodity contracts. Redemptions are made at net asset value.

(b) This category includes an investment in a hedge fund of funds that seeks capital appreciation by investing in long-short hedge funds. Aggressive investment strategies are utilized by the underlying funds to hedge and/or enhance return, including short sales, put and call options, futures, and margin borrowing.

(c) This category includes an investment in an absolute return hedge fund that seeks capital appreciation by investing in event-driven distressed equity securities (both long and short), debt securities, and derivative products.

(d) This category includes an investment in a hedge fund that aims to create implicit downside protection through core positions in the S&P 500 index, U.S. Treasury bills, and covered short call and put equity index options.

(e) This category includes investments in private equity funds that invest in both U.S. and foreign growth companies through various industries, with the life of the funds, as of June 30, 2013, varying from 1.5 through 2 years, and 3.5 through 7.5 years. One fund is currently in dissolution. Distributions are made to investors through the liquidation of the underlying assets.

(f) This category includes investments in venture capital funds that invest in diversified growth companies through various industries that mainly operate within the U.S., with the average life of the funds, as of June 30, 2013, varying from less than 1 year, 4 years, 7 years, and 11 years. One fund is currently in dissolution. Distributions are made to investors through the liquidation of the underlying assets.

(g) This category includes investments in private real estate and resource funds that invest in private real estate and natural resource partnerships that hold mainly domestic real estate and energy related investments, with the life of the funds, as of June 30, 2013, varying from 4 years, 8 years, and 10 years. Distributions are made to investors through the liquidation of the underlying assets.

(6) Investment in Plant Assets

Investment in plant assets, net is summarized as follows as of June 30 (in thousands):

		2013	2012
Land and improvements	$	10,496	10,496
Buildings		160,860	160,514
Furniture, equipment, and library books		28,204	28,254
Construction in progress		14,844	3,430
		214,404	202,694
Less accumulated depreciation		79,677	74,004
	$	134,727	128,690

(7) Long-Term Debt

Long-term debt is summarized as follows as of June 30 (in thousands):

		2013	2012
Maryland Health and Higher Educational Facilities Authority (MHHEFA) notes payable	$	—	24,965
MHHEFA Series 2004 Revenue Bonds		—	21,855
MHHEFA Series 2007 Revenue Bonds		—	28,955
MHHEFA Series 2012A Revenue Bonds		19,945	—
MHHEFA Series 2012B Revenue Bonds		52,070	—
MHHEFA Series 2012C Revenue Bonds		59	—
		72,074	75,775
Unamortized premium (discount)		2,309	(88)
	$	74,383	75,687

On August 30, 2012, the College advance refunded its MHHEFA Series 2004 Revenue Bonds and replaced the total principal outstanding, net of deposits held with trustees, with MHHEFA Series 2012A Revenue Bonds. The Series 2012A Revenue Bonds bear interest, payable semiannually, at fixed rates ranging from 2.25% to 5.00%. Serial bonds aggregating $8,975,000 are due in annual installments ranging from $600,000 to $1,280,000 beginning July 1, 2019 through July 1, 2027. Term bonds of $10,970,000 are due on July 1, 2034.

On September 19, 2012, MHHEFA Series 2012B Revenue Bonds were issued to refinance the College's MHHEFA Series 2007 Revenue Bonds and Notes Payable. On October 4, 2012, the MHHEFA Series 2007 Revenue Bonds were tendered and redeemed. The Series 2012B bonds were issued to the College directly by a commercial bank, which entered into an agreement to hold the bonds for a period of at least twelve years, with an option for the bank to extend the term by an additional five years. The Series 2012B Revenue Bonds bear interest, payable monthly, at a variable rate equal to 69% of one-month LIBOR plus 1.1165%. Principal repayments are due in annual installments ranging from $1,660,000 to $2,785,000, beginning on July 1, 2013 through July 1, 2038.

On October 18, 2012, the College issued MHHEFA Series 2012C Revenue Bonds. The proceeds, not to exceed $15,000,000, are expected to be drawn down prior to June 30, 2014, and will be used to fund a portion of the cost to renovate a building on campus. The Series 2012C Revenue Bonds bear interest, payable monthly, at a variable rate equal to 77% of one-month LIBOR plus 1.30%. Principal repayments, based on a schedule of pledge payments and other gift receipts, totaling $9,100,000 are due by July 1, 2019 and the balance by July 1, 2022.

The 2012A, B, and C Revenue Bonds are secured by a pledge of certain revenues of the College and are secured ratably and equally with its obligations under two interest rate swap agreements.

Interest costs incurred on long-term debt were $3,100,000 in 2013 and $3,396,000 in 2012.

Maturities of long-term debt are as follows:

Year ending June 30:	
2014	$ 1,690,000
2015	1,810,000
2016	1,994,000
2017	2,065,000
2018	2,185,000
Thereafter	62,330,000
	$ 72,074,000

Fair Value

The carrying value of the College's variable rate debt approximates fair value. The fair value of the College's fixed rate debt is based on current prices in the secondary market based on current rates for instruments with similar maturities and credit quality (Level 2 of the fair value hierarchy).

The table below summarizes the carrying value and fair value of the College's outstanding debt as of June 30, 2013 and 2012 (in thousands):

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Fixed rate	$ 22,254	21,030	21,767	23,086
Variable rate	52,129	52,129	53,920	53,920
	$ 74,383	73,159	75,687	77,006

Interest Rate Swap Agreements

The College has two interest rate swap agreements with a national bank to manage its interest rate risk on its variable rate debt. The first agreement extends through October 2019, and provides for the College to pay a fixed rate of 4.1% and receive a variable rate of 69% of the one month LIBOR (0.13% at June 30, 2013) based on a notional amount of $21,500,000. The notional amount will decrease to $14,500,000 in October 2018 and to $8,500,000 in April 2019. The second interest rate swap agreement extends through July 2034 and provides for the College to pay a fixed rate of 3.58% and receive a variable rate of 69% of the one month LIBOR (0.13% at June 30, 2013) based on an initial notional amount of $25,000,000. The notional amount is $24,020,000 as of June 30, 2013, and is scheduled to increase or decrease in subsequent years. As of June 30, 2013 and 2012, the fair value of the interest rate swap agreements was a liability of $6,769,000 and $9,846,000, respectively.

(8) Retirement Plans

Retirement benefits are provided for eligible faculty and administrative employees by a contributory purchase plan for annuity contracts. All participants have a fully vested interest in the contributions made by them or on their behalf, and the College has no obligation under the plan other than its monthly contributions.

The College also has a contributory defined contribution plan for all eligible employees not covered by the benefit plan described above. All participants are immediately vested in their contributions. Participants are not vested in employer matching contributions and the related earnings until three years of service have been completed.

The College's contributions were $1,104,000 in 2013 and $1,073,000 in 2012.

(9) Net Assets

Temporarily restricted net assets consist of the following as of June 30 (in thousands):

		2013	2012
Contributions and income designated for specific purposes	$	1,961	2,894
Gains on donor restricted endowment funds not appropriated for expenditure:			
For unrestricted or broadly restricted purposes		57,825	52,673
For narrowly restricted purposes		19,240	16,946
Capital projects		9,762	6,341
Split interest agreements		5,727	4,824
	$	94,515	83,678

Permanently restricted net assets consist of the following as of June 30 (in thousands):

		2013	2012
Donor-restricted endowments and pledges	$	74,784	73,688
Split interest agreements		4,392	3,989
Student loans		1,491	1,488
	$	80,667	79,165

(10) Endowment

The College's endowment consists of approximately 700 individual funds established for a variety of purposes including both donor-restricted endowment funds, including externally managed perpetual trusts, and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act (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. The College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board 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: the duration and preservation of the fund; the purposes of the College and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; the other resources of the College; and the investment policies of the College.

Endowment net assets consist of the following as of June 30, 2013 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(94)	77,065	76,075	153,046
Board-designated endowment funds		43,993	458	—	44,451
Total endowed net assets	$	43,899	77,523	76,075	197,497

Endowment net assets consist of the following as of June 30, 2012 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(270)	69,619	74,822	144,171
Board-designated endowment funds		39,111	435	—	39,546
Total endowed net assets	$	38,841	70,054	74,822	183,717

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2011	$	40,803	75,693	71,840	188,336
Investment return:					
Investment income		492	1,503	—	1,995
Net depreciation		(159)	(913)	(135)	(1,207)
Total investment return		333	590	(135)	788
Contributions collected		121	—	2,957	3,078
Appropriation of endowment assets for expenditure:					
Donor-restricted for unrestricted or broadly restricted purposes		—	(4,200)	—	(4,200)
Donor-restricted for narrowly restricted purposes		—	(2,048)	—	(2,048)
Board-designated		(2,988)	—	—	(2,988)
Total appropriation		(2,988)	(6,248)	—	(9,236)
Transfers		572	19	160	751
Endowment net assets, June 30, 2012		38,841	70,054	74,822	183,717
Investment return:					
Investment income		289	1,506	—	1,795
Net appreciation		3,615	12,161	138	15,914
Total investment return		3,904	13,667	138	17,709
Contributions collected		3,788	—	1,090	4,878
Appropriation of endowment assets for expenditure:					
Donor-restricted for unrestricted or broadly restricted purposes		(14)	(4,241)	—	(4,255)
Donor-restricted for narrowly restricted purposes		—	(1,968)	—	(1,968)
Board-designated		(2,620)	—	—	(2,620)
Total appropriation		(2,634)	(6,209)	—	(8,843)
Transfers		—	11	25	36
Endowment net assets, June 30, 2013	$	43,899	77,523	76,075	197,497

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount to be retained permanently. Deficiencies of this nature that are reported in unrestricted net assets were $93,000 and $270,000 as of June 30, 2013 and 2012, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to the amount permanently restricted will be classified as an increase in unrestricted net assets.

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. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to earn a 5% average annual compounded total return in excess of inflation, as measured by the Consumer Price Index (CPI), over a long-term time horizon of at least 10 years. Actual returns in any given year may vary from this amount.

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, bonds, and absolute return strategies in a ratio to achieve its long-term return objectives within prudent risk constraints.

As a general rule, the Board believes that a long-term spending rate of 5% of the College's endowment is appropriate. To that end, the Board recommends spending for College operations in any given fiscal year shall equal (a) 75% of spending for the prior fiscal year (adjusted for cumulative changes in inflation/deflation as measured by the CPI) plus (b) 25% of Goucher's target spending rate of 5% applied to Goucher's average endowment value for the 12 quarters preceding the calendar year in which the fiscal year begins. However, the actual annual spending rate approved by the Board may differ. The Board prohibits spending from individual endowment funds with market values below 90% of historic dollar value. In establishing these policies, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its real value by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

(11) Related Party Transactions

One member of the Board is an officer of an organization that provides services to the College. All related-party activity, including these transactions, is handled according to normal College procurement policies and procedures, with the related party excluded from consideration of and decision about the activity.

(12) Contingencies

Amounts received and expended by the College under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the College.

The College is a party to various litigation and other claims in the ordinary course of business. In the opinion of management, appropriate provision has been made for possible losses and the ultimate resolution of these matters will not have a significant effect on the financial position of the College.

(Continued)

(13) Subsequent Events

The College has evaluated subsequent events through October 21, 2013, the date that the financial statements were issued, and no matters required adjustment to or disclosure in the accompanying financial statements.

Schedule I

GOUCHER COLLEGE

Schedule of Expenses by Natural Classification

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Salaries, wages, and fringe benefits	$	37,587	36,938
Depreciation		6,675	6,853
Utilities, plant, and equipment expenses		4,100	4,309
Food service expenses		3,780	3,745
Interest expense on long-term debt		3,100	3,396
Student wages and awards		1,744	1,685
Outside services and independent contractors		1,783	1,700
Student and faculty travel		1,676	1,689
Supplies and other		6,122	5,925
Total expenses	$	66,567	66,240

See accompanying independent auditors' report.