# GOUCHER COLLEGE

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

**GOUCHER COLLEGE**

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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, which comprise the balance sheets as of June 30, 2016 and 2015, 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, 2016 and 2015, 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.

KPMG LLP

October 21, 2016

## GOUCHER COLLEGE

Balance Sheets

June 30, 2016 and 2015

(In thousands)

| **Assets** | | **2016** | **2015** |
|---|---|---|---|
| Cash | $ | 9,331 | 15,729 |
| Accounts and loans receivable, net | | 4,147 | 3,911 |
| Contributions receivable, net | | 1,466 | 1,352 |
| Deposits with bond trustee | | 469 | 470 |
| Investments | | 207,478 | 225,126 |
| Split interest agreements | | 10,450 | 10,975 |
| Investment in plant assets, net | | 138,075 | 129,615 |
| Other assets | | 1,028 | 241 |
| Total assets | $ | 372,444 | 387,419 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | $ | 9,111 | 6,802 |
| Deferred revenues and deposits | | 2,782 | 2,871 |
| Payables under split interest agreements | | 1,477 | 1,159 |
| Long-term debt | | 83,120 | 85,129 |
| Obligation under interest rate swap agreements | | 6,864 | 5,856 |
| Refundable advances from U.S. government | | 2,536 | 2,509 |
| Other liabilities | | 4,533 | 3,600 |
| Total liabilities | | 110,423 | 107,926 |
| Net assets: | | | |
| Unrestricted | | 87,233 | 94,559 |
| Temporarily restricted | | 88,745 | 99,985 |
| Permanently restricted | | 86,043 | 84,949 |
| Total net assets | | 262,021 | 279,493 |
| Total liabilities and net assets | $ | 372,444 | 387,419 |

See accompanying notes to financial statements.

**GOUCHER COLLEGE**

Statements of Activities

Year ended June 30, 2016
(with comparable totals for the year ended June 30, 2015)

(In thousands)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** | **2015 Total** |
| Revenues, gains, and support: | | | | | |
| Tuition and fees, net of student aid of $31,941 in 2016 and $28,868 in 2015 | $ 33,341 | — | — | 33,341 | 33,503 |
| Government appropriations | 2,175 | — | — | 2,175 | 2,046 |
| Contributions | 2,480 | 3,079 | 1,954 | 7,513 | 8,121 |
| Auxiliary enterprises | 15,438 | — | — | 15,438 | 14,937 |
| Other sources | 1,759 | 3 | 12 | 1,774 | 1,031 |
| Endowment assets appropriated for expenditure | 10,569 | 1,224 | — | 11,793 | 10,897 |
| Net assets released from restrictions | 2,448 | (2,448) | — | — | — |
| Total revenues, gains, and support | 68,210 | 1,858 | 1,966 | 72,034 | 70,535 |
| Expenses: | | | | | |
| Salaries, wages, and fringe benefits | 39,998 | — | — | 39,998 | 38,796 |
| Depreciation | 8,726 | — | — | 8,726 | 8,563 |
| Utilities, plant, and equipment expenses | 3,805 | — | — | 3,805 | 3,739 |
| Food service expenses | 4,136 | — | — | 4,136 | 4,082 |
| Interest expense on long-term debt | 2,767 | — | — | 2,767 | 3,088 |
| Student wages and awards | 1,684 | — | — | 1,684 | 1,583 |
| Outside services and independent contractors | 2,282 | — | — | 2,282 | 2,228 |
| Student and faculty travel | 1,700 | — | — | 1,700 | 1,701 |
| Supplies and other | 5,685 | — | — | 5,685 | 6,108 |
| Total expenses | 70,783 | — | — | 70,783 | 69,888 |
| Excess of revenues, gains, and support (under) over expenses | (2,573) | 1,858 | 1,966 | 1,251 | 647 |
| Other: | | | | | |
| Change in fair value of interest rate swap agreements | (1,008) | — | — | (1,008) | 325 |
| Net realized and unrealized losses on investments, net of amounts appropriated for expenditure | (4,070) | (12,773) | (872) | (17,715) | (12,665) |
| Net assets released from restrictions for investment in plant assets | 325 | (325) | — | — | — |
| Change in net assets | (7,326) | (11,240) | 1,094 | (17,472) | (11,693) |
| Net assets at beginning of year | 94,559 | 99,985 | 84,949 | 279,493 | 291,186 |
| Net assets at end of year | $ 87,233 | 88,745 | 86,043 | 262,021 | 279,493 |

See accompanying notes to financial statements.

**GOUCHER COLLEGE**

Statement of Activities

Year ended June 30, 2015

(In thousands)

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Revenues, gains, and support: | | | | |
| Tuition and fees, net of student aid of $28,868 in 2015 and $25,853 in 2014 | $ 33,503 | — | — | 33,503 |
| Government appropriations | 2,046 | — | — | 2,046 |
| Contributions | 3,648 | 2,815 | 1,658 | 8,121 |
| Auxiliary enterprises | 14,937 | — | — | 14,937 |
| Other sources | 1,028 | — | 3 | 1,031 |
| Endowment assets appropriated for expenditure | 9,768 | 1,129 | — | 10,897 |
| Net assets released from restrictions | 1,996 | (1,996) | — | — |
| Total revenues, gains, and support | 66,926 | 1,948 | 1,661 | 70,535 |
| Expenses: | | | | |
| Salaries, wages, and fringe benefits | 38,796 | — | — | 38,796 |
| Depreciation | 8,563 | — | — | 8,563 |
| Utilities, plant, and equipment expenses | 3,739 | — | — | 3,739 |
| Food service expenses | 4,082 | — | — | 4,082 |
| Interest expense on long-term debt | 3,088 | — | — | 3,088 |
| Student wages and awards | 1,583 | — | — | 1,583 |
| Outside services and independent contractors | 2,228 | — | — | 2,228 |
| Student and faculty travel | 1,701 | — | — | 1,701 |
| Supplies and other | 6,108 | — | — | 6,108 |
| Total expenses | 69,888 | — | — | 69,888 |
| Excess of revenues, gains, and support (under) over expenses | (2,962) | 1,948 | 1,661 | 647 |
| Other: | | | | |
| Change in fair value of interest rate swap agreements | 325 | — | — | 325 |
| Net realized and unrealized losses on investments, net of amounts appropriated for expenditure | (3,694) | (8,958) | (13) | (12,665) |
| Net assets released from restrictions for investment in plant assets | 221 | (221) | — | — |
| Change in net assets | (6,110) | (7,231) | 1,648 | (11,693) |
| Net assets at beginning of year | 100,669 | 107,216 | 83,301 | 291,186 |
| Net assets at end of year | $ 94,559 | 99,985 | 84,949 | 279,493 |

See accompanying notes to financial statements.

**GOUCHER COLLEGE**

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

| | | 2016 | 2015 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Tuition and auxiliary enterprises receipts | $ | 48,656 | 47,974 |
| Government appropriations | | 2,138 | 1,958 |
| Contributions received for operating purposes | | 3,205 | 6,185 |
| Investment income | | 1,282 | 451 |
| Other sources | | 847 | 1,231 |
| Payments to employees and suppliers | | (59,291) | (58,632) |
| Interest paid | | (2,856) | (3,164) |
| Net cash used in operating activities | | (6,019) | (3,997) |
| Cash flows from investing activities: | | | |
| Purchases of investments | | (75,556) | (35,275) |
| Proceeds from sales and maturities of investments | | 87,162 | 34,722 |
| Purchases of property and equipment | | (15,210) | (2,287) |
| Proceeds from sales of property and equipment | | 1,007 | — |
| Student loan disbursements | | (320) | (487) |
| Student loan principal payments | | 243 | 308 |
| Change in deposits with bond trustee, net | | 1 | 7 |
| Net cash used in investing activities | | (2,673) | (3,012) |
| Cash flows from financing activities: | | | |
| Proceeds from contributions restricted for long-term investment | | 4,190 | 1,977 |
| Investment income reinvested – restricted funds | | 12 | 21 |
| Proceeds from bond issue | | — | 6,941 |
| Payments of bonds payable | | (1,935) | (1,810) |
| Increase in refundable advances from U.S. government, net | | 27 | 38 |
| Net cash provided by financing activities | | 2,294 | 7,167 |
| Net (decrease) increase in cash | | (6,398) | 158 |
| Cash at beginning of year | | 15,729 | 15,571 |
| Cash at end of year | $ | 9,331 | 15,729 |



(Continued)

**GOUCHER COLLEGE**

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

| | | 2016 | 2015 |
|---|---|---|---|
| Reconciliation of change in net assets to net cash used in operating activities: | | | |
| Change in net assets | $ | (17,472) | (11,693) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | | |
| Depreciation | | 8,726 | 8,563 |
| Net realized and unrealized losses on investments | | 6,889 | 2,087 |
| Change in fair value of interest rate swap agreements | | 1,008 | (325) |
| Amortization of bond discount, premium, and deferred bond costs | | (74) | (71) |
| Amortization of asset retirement obligation | | 103 | (218) |
| Contributions restricted for long-term investment | | (4,190) | (1,658) |
| Investment income reinvested – restricted funds | | (12) | (21) |
| Gain on sales of property and equipment | | (347) | — |
| Change in accounts receivable, net | | (159) | (103) |
| Decrease in contributions receivable and receivables under split interest agreement, net | | (118) | (278) |
| Increase in accounts payable and accrued liabilities, deferred revenues, deposits, and other liabilities | | (208) | (407) |
| Change in other assets, net | | (165) | 127 |
| Net cash used in operating activities | $ | (6,019) | (3,997) |
| Supplemental noncash disclosure: | | | |
| Accounts payable and other liabilities relating to property and equipment purchases | $ | 3,986 | 1,350 |

See accompanying notes to financial statements.

## (1) College and Summary of Significant Accounting Policies

### *(a) General*

Goucher College (Goucher or the College) is a private, nonprofit, liberal arts institution of higher education located in Towson, 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 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 actuarial assumptions related to annuities, fair values of investments, and valuation allowances for receivables. Actual results could differ from those estimates.

### *(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 creditworthiness 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 or published market prices. Investments in certain 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 (NAV) 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 NAV. As of June 30, 2016 and 2015, the College had no plans or intentions to sell investments at amounts different from NAV. 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.


(Continued)

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 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, 2016, the College had $1,318,000 of gift annuity liabilities recorded in payables under split interest agreements and $1,660,000 of corresponding investments that have been separately invested, as required by the State of Maryland. As of June 30, 2015, the College had $1,029,000 of gift annuity liabilities recorded in payables under split interest agreements and $1,834,000 of corresponding investments that have been separately invested, as required by the State of Maryland.

### *(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. 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 17% and 18%, respectively, of tuition and room and board revenues in 2016 and 2015, were funded by federal student financial aid programs (including loan, grant, and work-study programs).

### *(j) 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 2016 or 2015.


(Continued)

Management has analyzed the tax positions taken by the College and has concluded that as of June 30, 2016 and 2015, 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.

***(k) 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 balance sheets. 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.

***(l) Recent Accounting Pronouncements***

Effective in 2016, the College retroactively adopted the provisions of Accounting Standards Update (ASU) No. 2015-10, Technical Corrections and Improvements. This ASU clarified one aspect of the definition of readily determinable fair value (RDFV), thereby affecting the measurement of and disclosure about certain equity instruments. During 2016, management evaluated its investments, historically measured using NAV as a practical expedient in structures with characteristics similar to a mutual fund, as to whether they have an RDFV. Certain common collective trust funds aggregating $49,186,000, previously presented using NAV as a practical expedient as of June 30, 2015, were determined to have an RDFV and have been classified as Level 1 in the fair value hierarchy. This is consistent with the June 30, 2016 presentation.

## (2) Accounts and Loans Receivable

Accounts and loans receivable, net are summarized as follows as of June 30, 2016 and 2015 (in thousands):

| | | 2016 | 2015 |
|---|---|---|---|
| Loans to students | $ | 2,600 | 2,530 |
| Amounts receivable from federal, state, and local governments | | 790 | 753 |
| Accounts receivable from students | | 559 | 525 |
| Other | | 325 | 226 |
| | | 4,274 | 4,034 |
| Less allowance for doubtful accounts receivable | | 127 | 123 |
| | $ | 4,147 | 3,911 |

## (3) Contributions Receivable

Contributions receivable, net are summarized as follows as of June 30, 2016 and 2015 (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $ 880 | 812 |
| One year to five years | 555 | 464 |
| Thereafter | 204 | 232 |
| | 1,639 | 1,508 |
| Less: | | |
| Allowance for uncollectible pledges | 117 | 132 |
| Unamortized discount (interest rates ranging from 0.41% to 4.50%) | 56 | 24 |
| | $ 1,466 | 1,352 |

As of June 30, 2016 and 2015, 49% and 58%, respectively, of the contributions receivable was due from five donors. 40% and 54%, respectively, of contributions revenue for 2016 and 2015 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.

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, equity mutual funds, and certain common collective trust funds are determined using quoted or published 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 NAV 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. These investments are not included in a level within the fair value hierarchy.

*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 (2.0% at June 30, 2016). 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 the 2015 IAR and 2000CM mortality tables at June 30, 2016 and 2015, respectively. 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, 2016 (in thousands):

| | June 30, 2016 | Level 1 | Level 2 | Level 3 | NAV (1) |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Investments: | | | | | |
| Cash and short-term investments held by managers | $ 1,932 | 1,932 | — | — | — |
| Mutual funds: | | | | | |
| Developed markets equities | 35,266 | 35,266 | — | — | — |
| Fixed income | 27,448 | 27,448 | — | — | — |
| Commodities | 9,169 | 9,169 | — | — | — |
| Managed futures | 5,892 | 5,892 | — | — | — |
| Multi-asset | 5,620 | 5,620 | — | — | — |
| Emerging markets equities | 3,334 | 3,334 | — | — | — |
| Total mutual funds | 86,729 | 86,729 | — | — | — |
| Common collective trusts | 76,283 | 36,558 | — | — | 39,725 |
| Hedge funds | 19,800 | — | — | — | 19,800 |
| Limited partnership interests | 22,734 | — | — | — | 22,734 |
| Total investments | $ 207,478 | 125,219 | — | — | 82,259 |
| Other assets: | | | | | |
| Deposits with bond trustee | $ 469 | 469 | — | — | — |
| Split interest agreements | 10,450 | — | — | 10,450 | — |
| Financial liabilities: | | | | | |
| Interest rate swaps | (6,864) | — | (6,864) | — | — |

The following table presents assets and liabilities, which are measured on a recurring basis at fair value, as of June 30, 2015 (in thousands):

| | June 30, 2015 | Level 1 | Level 2 | Level 3 | NAV (1) |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Investments: | | | | | |
| Cash and short-term held by managers investments | $ 443 | 443 | — | — | — |
| Mutual funds: | | | | | |
| Developed markets equities | 39,355 | 39,355 | — | — | — |
| Fixed income | 29,046 | 29,046 | — | — | — |
| Commodities | 8,967 | 8,967 | — | — | — |
| Multi-asset | 10,337 | 10,337 | — | — | — |
| Emerging markets equities | 3,774 | 3,774 | — | — | — |
| Total mutual funds | 91,479 | 91,479 | — | — | — |
| Common collective trusts | 79,904 | 49,186 | — | — | 30,718 |
| Hedge funds | 28,745 | — | — | — | 28,745 |
| Limited partnership interests | 24,555 | — | — | — | 24,555 |
| Total investments | $ 225,126 | 141,108 | — | — | 84,018 |
| Other assets: | | | | | |
| Deposits with bond trustee | $ 470 | 470 | — | — | — |
| Split interest agreements | 10,975 | — | — | 10,975 | — |
| Financial liabilities: | | | | | |
| Interest rate swaps | (5,856) | — | (5,856) | — | — |

(1) These investments are measured at fair value using the NAV per share (or its equivalent) as a practical expedient and are not classified within the fair value hierarchy. The fair value amounts presented in this table are included to permit reconciliation of the fair value hierarchy table to amounts presented in the balance sheets.

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, 2016 and 2015 (in thousands):

| | | Split interest agreements |
|---|---|---|
| Ending balance, June 30, 2014 | $ | 10,879 |
| Investment income, net of fees | | 131 |
| Net realized and unrealized gains | | 214 |
| Distributions | | (249) |
| Ending balance, June 30, 2015 | | 10,975 |
| Investment income, net of fees | | 125 |
| Net realized and unrealized loss | | (472) |
| Distributions | | (178) |
| Ending balance, June 30, 2016 | $ | 10,450 |

There were no transfers between levels in 2016 or 2015.

## (5) Investments and Investment Return

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 included in the following sections within the statements of activities as follows:

| | | 2016 | 2015 |
|---|---|---|---|
| Revenues, gains, and support | $ | 12,120 | 11,049 |
| Other | | (17,715) | (12,665) |
| Total investment return | $ | (5,595) | (1,616) |

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, 2016, the majority of the College’s portfolio was redeemable either on a daily or monthly basis, and investments aggregating $36,687,000 were illiquid or redeemable on a quarterly basis.

The table below summarizes investments for which NAV 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, 2016 and 2015:

| Investment | | Fair value 2016 | Fair value 2015 | Unfunded commitments 2016 | Unfunded commitments 2015 | Redemption frequency (if currently eligible) | Redemption notice period |
|---|---|---|---|---|---|---|---|
| Common collective trust funds (a) | $ | 39,725 | 30,718 | N/A | N/A | Monthly | 1–30 days |
| Hedge funds: | | | | | | | |
| Long and short (b) | | 4,114 | 11,387 | N/A | N/A | Quarterly | 45 days |
| Absolute return (c) | | 9,839 | 11,045 | N/A | N/A | Quarterly | 65 days |
| Covered options (d) | | 5,847 | 6,313 | N/A | N/A | Monthly | 5 days |
| Limited partnership interests: | | | | | | | |
| Private equity (e) | | 8,291 | 9,887 | 1,812 | 2,238 | N/A | N/A |
| Venture capital (f) | | 10,835 | 10,775 | 9,529 | 3,431 | N/A | N/A |
| Private real estate and resources (g) | | 3,608 | 3,893 | 5,336 | 2,794 | N/A | N/A |
| | $ | 82,259 | 84,018 | 16,677 | 8,463 | | |

(a) 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 NAV.

(b) 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) 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) 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) Investments in private equity funds that invest in both U.S. and foreign growth companies in various industries, with the life of the funds, as of June 30, 2016, varying from 1 through 5 years. One fund has reached the end of its contractual life. Distributions are made to investors through the liquidation of the underlying assets.

(f) Investments in venture capital funds that invest in diversified growth companies in various industries that principally operate within the United States, with the life of the funds, as of June 30, 2016, varying from 1 through 11 years. Distributions are made to investors through the liquidation of the underlying assets.

(g) Investments in private real estate and resource funds that invest in private real estate and natural resource partnerships that hold principally domestic real estate and energy related investments, with the life of the funds, as of June 30, 2016, varying from 1 through 11 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, 2016 and 2015 (in thousands):

| | | 2016 | 2015 |
|---|---|---|---|
| Land and improvements | $ | 11,713 | 11,682 |
| Buildings | | 176,692 | 176,901 |
| Furniture, equipment, and library books | | 32,948 | 32,519 |
| Construction in progress | | 17,172 | 1,312 |
| | | 238,525 | 222,414 |
| Less accumulated depreciation | | 100,450 | 92,799 |
| | $ | 138,075 | 129,615 |

## (7) Long-Term Debt

Long-term debt is summarized as follows as of June 30, 2016 and 2015 (in thousands):

| | | 2016 | 2015 |
|---|---|---|---|
| Maryland Health and Higher Educational Facilities Authority (MHHEFA) Series 2012A Revenue Bonds | $ | 19,945 | 19,945 |
| MHHEFA Series 2012B Revenue Bonds | | 46,635 | 48,570 |
| MHHEFA Series 2012C Revenue Bonds | | 15,000 | 15,000 |
| | | 81,580 | 83,515 |
| Unamortized premium | | 2,014 | 2,116 |
| Deferred bond costs | | (474) | (502) |
| | $ | 83,120 | 85,129 |

MHHEFA 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.

MHHEFA Series 2012B Revenue Bonds were issued to refinance existing debt. 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.

MHHEFA Series 2012C Revenue Bonds were issued to finance a portion of the cost to renovate a building on campus. Series 2012C bonds were issued to the College directly by a commercial bank. 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 up to $9,100,000 are due by July 1, 2019 and the balance by July 1, 2022; however, the College has the option of repaying the bonds as pledge payments and other gifts are received.

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.

Maturities of long-term debt are as follows (in thousands):

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2017 | $ | 2,065 |
| 2018 | | 2,185 |
| 2019 | | 2,330 |
| 2020 | | 11,615 |
| 2021 | | 2,670 |
| Thereafter | | 60,715 |
| | $ | 81,580 |

Interest expense of $268,000 and $0 was capitalized as part of the construction and renovation projects for 2016 and 2015, respectively.

***Interest Rate Swap Agreements***

The College has two interest rate swap agreements with a national bank to manage the College's 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 (0.31% at June 30, 2016) 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 (0.31% at June 30, 2016) based on an initial notional amount of $25,000,000. The notional amount is $13,310,000 as of June 30, 2016, and is scheduled to increase or decrease in subsequent years. As of June 30, 2016 and 2015, the fair value of the interest rate swap agreements was a liability of $6,864,000 and $5,856,000, respectively.

## (8) Retirement Plans

Retirement benefits are provided for eligible faculty and administrative employees by a contributory purchase plan, offering the opportunity for investment in a variety of annuity contracts and mutual funds. 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 to both plans were $1,497,000 in 2016 and $1,448,000 in 2015.

The College also maintains a deferred compensation plan for certain executives.

## (9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2016 and 2015 (in thousands):

| | | 2016 | 2015 |
|---|---|---|---|
| Contributions and income designated for specific purposes | $ | 3,301 | 3,839 |
| Gains on donor-restricted endowment funds not appropriated for expenditure: | | | |
| For unrestricted or broadly restricted purposes | | 55,844 | 65,335 |
| For narrowly restricted purposes | | 20,069 | 23,624 |
| Capital projects | | 2,619 | 496 |
| Split interest agreements | | 6,912 | 6,691 |
| | $ | 88,745 | 99,985 |

Permanently restricted net assets consist of the following as of June 30, 2016 and 2015 (in thousands):

| | | 2016 | 2015 |
|---|---|---|---|
| Donor-restricted endowments and pledges | $ | 80,727 | 78,815 |
| Split interest agreements | | 3,799 | 4,629 |
| Student loans | | 1,517 | 1,505 |
| | $ | 86,043 | 84,949 |

## (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 allowing, subject to individual donor intent as expressed in a gift instrument, the Board to appropriate for expenditure or accumulate so much of an endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the fund is established. The College classifies as permanently restricted net assets (a) an amount equal to the historic dollar value of all donor-restricted endowment funds, (b) the original value of subsequent gifts to a donor-restricted endowment fund, and (c) accumulations to the donor-restricted 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, 2016 (in thousands):

| | | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (181) | 75,913 | 82,598 | 158,330 |
| Board-designated endowment funds | | 42,673 | 479 | — | 43,152 |
| Total endowed net assets | $ | 42,492 | 76,392 | 82,598 | 201,482 |

Endowment net assets consist of the following as of June 30, 2015 (in thousands):

| | | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (35) | 88,959 | 80,770 | 169,694 |
| Board-designated endowment funds | | 46,499 | 514 | — | 47,013 |
| Total endowed net assets | $ | 46,464 | 89,473 | 80,770 | 216,707 |



(Continued)

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

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, June 30, 2014 | $ | 50,145 | 98,664 | 78,750 | 227,559 |
| Investment return: | | | | | |
| Investment income | | 48 | 251 | — | 299 |
| Net depreciation | | (528) | (1,750) | (94) | (2,372) |
| Total investment return | | (480) | (1,499) | (94) | (2,073) |
| Contributions collected | | 4 | — | 1,864 | 1,868 |
| Appropriation of endowment assets for expenditure: | | | | | |
| Donor-restricted for unrestricted or broadly restricted purposes | | — | (5,602) | — | (5,602) |
| Donor-restricted for narrowly restricted purposes | | — | (2,090) | — | (2,090) |
| Board-designated | | (3,205) | — | — | (3,205) |
| Total appropriation | | (3,205) | (7,692) | — | (10,897) |
| Transfers | | — | — | 250 | 250 |
| Endowment net assets, June 30, 2015 | | 46,464 | 89,473 | 80,770 | 216,707 |
| Investment return: | | | | | |
| Investment income | | 315 | 781 | — | 1,096 |
| Net depreciation | | (1,266) | (5,091) | (199) | (6,556) |
| Total investment return | | (951) | (4,310) | (199) | (5,460) |
| Contributions collected | | 1 | — | 2,012 | 2,013 |
| Appropriation of endowment assets for expenditure: | | | | | |
| Donor-restricted for unrestricted or broadly restricted purposes | | (224) | (6,502) | — | (6,726) |
| Donor-restricted for narrowly restricted purposes | | (16) | (2,247) | — | (2,263) |
| Board-designated | | (2,782) | (22) | — | (2,804) |
| Total appropriation | | (3,022) | (8,771) | — | (11,793) |
| Transfers | | — | — | 15 | 15 |
| Endowment net assets, June 30, 2016 | $ | 42,492 | 76,392 | 82,598 | 201,482 |



(Continued)

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 $181,000 and $35,000 as of June 30, 2016 and 2015, 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 anticipates the current spending policy to allow its endowment to maintain its real value by appreciating through investment returns at a rate equal to planned payouts. Additional spending capacity will be provided through new gifts and any excess investment return.

## (11) Functional Expenses

Expenses by function are summarized as follows for the years ended June 30, 2016 and 2015 (in thousands):

| | | 2016 | 2015 |
|---|---|---|---|
| Instruction and departmental research | $ | 30,312 | 30,118 |
| General administration | | 11,939 | 11,475 |
| Student services | | 10,352 | 10,267 |
| Library | | 2,513 | 2,424 |
| Auxiliary enterprises | | 15,667 | 15,604 |
| | $ | 70,783 | 69,888 |

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 square footage and usage of facilities. Total fund-raising expenses, which are included in the general administration category, were approximately $3,010,000 and $2,763,000 in 2016 and 2015, respectively.

## (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.

## (13) Subsequent Events

The College has evaluated subsequent events through October 21, 2016, the date that the financial statements were issued, and no matters required adjustment to or disclosure in the accompanying financial statements.