GOUCHER COLLEGE

Financial Statements

June 30, 2015 and 2014

(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, 2015 and 2014, 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, 2015 and 2014, 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 5, 2015

GOUCHER COLLEGE

Balance Sheets

June 30, 2015 and 2014

(In thousands)

Assets		**2015**	**2014**
Cash	$	15,729	15,571
Accounts and loans receivable, net		3,911	3,629
Contributions receivable, net		1,352	1,446
Deposits with bond trustee		470	477
Investments		225,126	226,745
Split interest agreements		10,975	10,879
Investment in plant assets, net		129,615	134,541
Other assets		241	368
Total assets	$	387,419	393,656
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	6,802	6,321
Deferred revenues and deposits		2,871	3,002
Payables under split interest agreements		1,159	1,201
Long-term debt		85,129	80,069
Obligation under interest rate swap agreements		5,856	6,181
Refundable advances from U.S. government		2,509	2,471
Other liabilities		3,600	3,225
Total liabilities		107,926	102,470
Net assets:			
Unrestricted		94,559	100,669
Temporarily restricted		99,985	107,216
Permanently restricted		84,949	83,301
Total net assets		279,493	291,186
Total liabilities and net assets	$	387,419	393,656

See accompanying notes to financial statements.

GOUCHER COLLEGE

Statements of Activities

Year ended June 30, 2015
(with comparable totals for the year ended June 30, 2014)

(In thousands)

	2015				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2014 Total**
Revenues, gains, and support:					
Tuition and fees, net of student aid of $28,868 in 2015 and $25,853 in 2014	$ 33,100	—	—	33,100	32,903
Government appropriations	2,046	—	—	2,046	2,032
Contributions	3,648	2,815	1,658	8,121	7,383
Auxiliary enterprises	14,901	—	—	14,901	14,402
Other sources	1,373	—	3	1,376	1,282
Endowment assets appropriated for expenditure	9,768	1,129	—	10,897	9,039
Net assets released from restrictions	1,996	(1,996)	—	—	—
Total revenues, gains, and support	66,832	1,948	1,661	70,441	67,041
Expenses:					
Salaries, wages, and fringe benefits	38,796	—	—	38,796	38,985
Depreciation	8,563	—	—	8,563	7,539
Utilities, plant, and equipment expenses	3,739	—	—	3,739	4,864
Food service expenses	4,082	—	—	4,082	3,980
Interest expense on long-term debt	3,088	—	—	3,088	3,164
Student wages and awards	1,583	—	—	1,583	1,739
Outside services and independent contractors	2,228	—	—	2,228	1,791
Student and faculty travel	1,701	—	—	1,701	1,646
Supplies and other	6,014	—	—	6,014	5,373
Total expenses	69,794	—	—	69,794	69,081
Excess of revenues, gains, and support (under) over expenses	(2,962)	1,948	1,661	647	(2,040)
Other:					
Change in fair value of interest rate swap agreements	325	—	—	325	588
Net realized and unrealized (losses) gains on investments, net of amounts appropriated for expenditure	(3,694)	(8,958)	(13)	(12,665)	28,238
Net assets released from restrictions for investment in plant assets	221	(221)	—	—	—
Change in net assets	(6,110)	(7,231)	1,648	(11,693)	26,786
Net assets at beginning of year	100,669	107,216	83,301	291,186	264,400
Net assets at end of year	$ 94,559	99,985	84,949	279,493	291,186

See accompanying notes to financial statements.

GOUCHER COLLEGE

Statements of Activities

Year ended June 30, 2014

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and support:				
Tuition and fees, net of student aid of $25,853 in 2014	$ 32,903	—	—	32,903
Government appropriations	2,032	—	—	2,032
Contributions	4,397	1,125	1,861	7,383
Auxiliary enterprises	14,402	—	—	14,402
Other sources	1,272	—	10	1,282
Endowment assets appropriated for expenditure	8,366	673	—	9,039
Net assets released from restrictions	1,644	(1,644)	—	—
Total revenues, gains, and support	65,016	154	1,871	67,041
Expenses:				
Salaries, wages, and fringe benefits	38,985	—	—	38,985
Depreciation	7,539	—	—	7,539
Utilities, plant, and equipment expenses	4,864	—	—	4,864
Food service expenses	3,980	—	—	3,980
Interest expense on long-term debt	3,164	—	—	3,164
Student wages and awards	1,739	—	—	1,739
Outside services and independent contractors	1,791	—	—	1,791
Student and faculty travel	1,646	—	—	1,646
Supplies and other	5,373	—	—	5,373
Total expenses	69,081	—	—	69,081
Excess of revenues, gains, and support over expenses	(4,065)	154	1,871	(2,040)
Other:				
Change in fair value of interest rate swap agreements	588	—	—	588
Net realized and unrealized gains on investments, net of amounts appropriated for expenditure	5,488	21,987	763	28,238
Net assets released from restrictions for investment in plant assets	9,440	(9,440)	—	—
Change in net assets	11,451	12,701	2,634	26,786
Net assets at beginning of year	89,218	94,515	80,667	264,400
Net assets at end of year	$ 100,669	107,216	83,301	291,186

See accompanying notes to financial statements.

GOUCHER COLLEGE

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
Tuition and auxiliary enterprises receipts	$	47,974	46,754
Government appropriations		1,958	2,003
Contributions received for operating purposes		6,185	5,097
Investment income		451	152
Other sources		1,231	1,458
Payments to employees and suppliers		(58,632)	(57,356)
Interest paid		(3,164)	(3,237)
Net cash used in operating activities		(3,997)	(5,129)
Cash flows from investing activities:			
Purchases of investments		(35,275)	(26,391)
Proceeds from sales and maturities of investments		34,722	34,775
Purchases of property and equipment		(2,287)	(9,689)
Student loan disbursements		(487)	(415)
Student loan principal payments		308	275
Change in deposits with bond trustee, net		7	18
Net cash used in investing activities		(3,012)	(1,427)
Cash flows from financing activities:			
Proceeds from contributions restricted for long-term investment		1,977	5,837
Investment income reinvested – restricted funds		21	28
Proceeds from bond issue		6,941	8,000
Payments of bonds payable		(1,810)	(1,690)
Increase in refundable advances from U.S. government, net		38	39
Net cash provided by financing activities		7,167	12,214
Net increase in cash		158	5,658
Cash at beginning of year		15,571	9,913
Cash at end of year	$	15,729	15,571

(Continued)

GOUCHER COLLEGE

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

	2015	2014
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	$ (11,693)	26,786
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,563	7,539
Net realized and unrealized losses (gains) on investments	2,087	(36,961)
Change in fair value of interest rate swap agreements	(325)	(588)
Amortization of bond discount, premium and deferred bond costs	(71)	(69)
Amortization of asset retirement obligation	(218)	512
Contributions restricted for long-term investment	(1,658)	(1,861)
Investment income reinvested – restricted funds	(21)	(28)
Change in accounts receivable, net	(103)	21
Increase in contributions receivable and split interest agreements, net	(278)	(571)
Increase in accounts payable and accrued liabilities, deferred revenues, deposits, and other liabilities	(407)	(95)
Change in other assets, net	127	186
Net cash used in operating activities	$ (3,997)	(5,129)
Supplemental noncash disclosure:		
Accounts payable and other liabilities relating to property and equipment purchases	$ 1,350	—

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 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 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.

(Continued)

(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 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, 2015 and 2014, 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 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, 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. As of June 30, 2014, the College had $1,063,000 of gift annuity liabilities recorded in payables under split interest agreements and $1,843,000 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. Depreciation expense was approximately $8,563,000 and $7,539,000 in 2015 and 2014, 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 18% of tuition and room and board revenues in 2015 and 2014, were funded by federal student financial aid programs (including loan, grant, and work-study programs).

(Continued)

(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 2015 or 2014.

Management has analyzed the tax positions taken by the College, and has concluded that as of June 30, 2015 and 2014 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

In May 2015, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the Emerging Issues Task Force)*, which eliminates the requirement to classify investments in the fair value hierarchy if their fair value is measured at NAV using the practical expedient. The College has adopted this ASU in fiscal 2015 and modified their fair value disclosures as of June 30, 2014 to conform with the presentation as of June 30, 2015.

In April 2015, the FASB issued ASU No 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The College adopted ASU No. 2015-03 in fiscal 2015 and modified the June 30, 2014 presentation to conform.

(2) Accounts and Loans Receivable

Accounts and loans receivable, net are summarized as follows as of June 30, 2015 and 2014 (in thousands):

		2015	2014
Loans to students	$	2,530	2,355
Amounts receivable from federal, state, and local governments		753	665
Accounts receivable from students		525	529
Other		226	108
		4,034	3,657
Less allowance for doubtful accounts receivable		123	28
	$	3,911	3,629

(3) Contributions Receivable

Contributions receivable, net are summarized as follows as of June 30, 2015 and 2014 (in thousands):

		2015	2014
Unconditional promises expected to be collected in:			
Less than one year	$	812	759
One year to five years		464	714
Thereafter		232	147
		1,508	1,620
Less:			
Allowance for uncollectible pledges		132	132
Unamortized discount (interest rates ranging from 0.41% to 4.5%)		24	42
	$	1,352	1,446

As of June 30, 2015 and 2014, approximately 58% and 54%, respectively, of the contributions receivable was due from five donors. Approximately 54% and 38%, respectively, of contributions revenue for 2015 and 2014 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 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. 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, 2015). 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, 2015 (in thousands):

	Fair value as of June 30, 2015	Level 1	Level 2	Level 3
Financial assets:				
Investments, at fair value:				
Cash and short-term investments held by managers	$ 443	443	—	—
Mutual funds:				
Developed markets equities	39,355	39,355	—	—
Fixed income	29,046	29,046	—	—

		Fair value as of June 30, 2015	Level 1	Level 2	Level 3
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	—	—
Total investments, at fair value		91,922	91,922	—	—
Investments, at net asset value as a practical expedient (1)		133,204			
Total investments	$	225,126			
Other assets, at fair value:					
Deposits with bond trustee	$	470	470	—	—
Split interest agreements		10,975	—	—	10,975
Financial liabilities:					
Interest rate swaps	$	—	(5,856)	—	(5,856)

The following table presents assets and liabilities, which are measured on a recurring basis at fair value, as of June 30, 2014 (in thousands):

		Fair value as of June 30, 2014	Level 1	Level 2	Level 3
Financial assets:					
Investments, at fair value:					
Cash and short-term investments held by managers	$	436	436	—	—
Mutual funds:					
Developed markets equities		40,326	40,326	—	—
Fixed income		23,269	23,269	—	—
Commodities		10,084	10,084	—	—
Multi-asset		9,872	9,872	—	—
Emerging markets equities		4,140	4,140	—	—
Total mutual funds		87,691	87,691	—	—
Total investments, at fair value		88,127	88,127	—	—

		Fair value as of June 30, 2014	Level 1	Level 2	Level 3
Investments, at net asset value as a practical expedient [1]		138,618			
Total investments	$	226,745			
Other assets, at fiar value:					
Deposits with bond trustee	$	477	477	—	—
Split interest agreements		10,879	—	—	10,879
Financial liabilities:					
Interest rate swaps	$	(6,181)	—	(6,181)	—

[1] These investments are measured at fair value using the net asset value 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, 2015 and 2014 (in thousands):

		Split interest agreements
Ending balance, June 30, 2013	$	9,812
Investment income (loss), net of fees		118
Net realized and unrealized gains		1,571
Distributions		(622)
Ending balance, June 30, 2014		10,879
Investment income (loss), net of fees		131
Net realized and unrealized gains		214
Distributions		(249)
Ending balance, June 30, 2015	$	10,975

There were no transfers between levels in 2015 or 2014.

(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 summarized as follows (in thousands):

		2015	2014
Income from interest and dividends	$	2,327	2,472
Net realized and unrealized (losses) gains		(2,087)	36,961
Investment fees		(1,856)	(2,146)
Total investment return	$	(1,616)	37,287

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

		2015	2014
Revenues, gains, and support	$	11,049	9,049
Other		(12,665)	28,238
Total investment return	$	(1,616)	37,287

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, 2015, the majority of the College's portfolio was redeemable either on a daily or monthly basis, and investments aggregating $46,987,000 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, 2015 and 2014:

Investment		Fair value 2015	Fair value 2014	Unfunded commitments 2015	Unfunded commitments 2014	Redemption frequency (if currently eligible)	Redemption notice period
Common collective trust funds (a)	$	79,904	79,640	N/A	N/A	Daily or monthly	1–30 days
Hedge funds:							
Long and short (b)		11,387	11,950	N/A	N/A	Quarterly	45 days
Absolute return (c)		11,045	11,013	N/A	N/A	Quarterly	65 days
Covered options (d)		6,313	6,992	N/A	N/A	Monthly	5 days
Limited partnership interests:							
Private equity (e)		9,887	11,845	2,238	2,839	N/A	N/A
Venture capital (f)		10,775	10,806	3,431	4,267	N/A	N/A
Private real estate and resources (g)		3,893	6,372	2,794	4,805	N/A	N/A
	$	133,204	138,618	8,463	11,911		

(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 in various industries, with the life of the funds, as of June 30, 2015, varying from 2 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) This category includes 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, 2015, varying from 0.5 years, 2 years, 5 years, and 9 years. 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 principally domestic real estate and energy related investments, with the life of the funds, as of June 30, 2015, varying from 2 years, 6 years, 8 years, and 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, 2015 and 2014 (in thousands):

	2015	2014
Land and improvements	$ 11,682	11,370
Buildings	176,901	176,437
Furniture, equipment, and library books	32,519	32,798
Construction in progress	1,312	—
	222,414	220,605
Less accumulated depreciation	92,799	86,064
	$ 129,615	134,541

(7) Long-Term Debt

Long-term debt is summarized as follows as of June 30, 2015 and 2014 (in thousands):

		2015	2014
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Series 2012A Revenue Bonds	$	19,945	19,945
MHHEFA Series 2012B Revenue Bonds		48,570	50,380
MHHEFA Series 2012C Revenue Bonds		15,000	8,059
		83,515	78,384
Unamortized premium		2,116	2,214
Deferred bond costs		(502)	(529)
	$	85,129	80,069

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.

On October 18, 2012, the College issued MHHEFA Series 2012C Revenue Bonds to finance a portion of the cost to renovate a building on campus. The total proceeds of $15,000,000, were drawn down mainly in fiscal years 2014 and 2015, with the final draw of $6,941,000 occurring April 22, 2015. 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.

Interest costs incurred on long-term debt were $3,088,000 in 2015 and $3,164,000 in 2014.

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

Year ending June 30:		
2016	$	1,935
2017		2,065
2018		2,185
2019		2,330
2020		11,615
Thereafter		63,385
	$	83,515

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, 2015 and 2014 (in thousands):

		2015		**2014**	
		Carrying value	**Fair value**	**Carrying value**	**Fair value**
Fixed rate	$	21,737	21,794	21,820	21,702
Variable rate		63,392	63,570	58,249	58,439
	$	85,129	85,364	80,069	80,141

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 (0.13% at June 30, 2015) 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, 2015) based on an initial notional amount of $25,000,000. The notional amount is $16,970,000 as of June 30, 2015, and is scheduled to increase or decrease in subsequent years. As of June 30, 2015 and 2014, the fair value of the interest rate swap agreements was a liability of $5,856,000 and $6,181,000, respectively.

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(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 $1,448,000 in 2015 and $1,428,000 in 2014.

(9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2015 and 2014 (in thousands):

		2015	2014
Contributions and income designated for specific purposes	$	3,839	2,040
Gains on donor-restricted endowment funds not appropriated for expenditure:			
For unrestricted or broadly restricted purposes		65,335	71,659
For narrowly restricted purposes		23,624	26,465
Capital projects		496	523
Split interest agreements		6,691	6,529
	$	99,985	107,216

Permanently restricted net assets consist of the following as of June 30, 2015 and 2014 (in thousands):

		2015	2014
Donor-restricted endowments and pledges	$	78,815	77,093
Split interest agreements		4,629	4,706
Student loans		1,505	1,502
	$	84,949	83,301

(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.

(Continued)

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, 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

Endowment net assets consist of the following as of June 30, 2014 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (30)	98,124	78,750	176,844
Board-designated endowment funds	50,175	540	—	50,715
Total endowed net assets	$ 50,145	98,664	78,750	227,559

(Continued)

Changes in endowment net assets for the years ended June 30, 2015 and 2014 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	$ 43,899	77,523	76,075	197,497
Investment return:				
Investment income	49	270	—	319
Net appreciation	8,011	27,210	296	35,517
Total investment return	8,060	27,480	296	35,836
Contributions collected	903	—	2,157	3,060
Appropriation of endowment assets for expenditure:				
Donor-restricted for unrestricted or broadly restricted purposes	—	(4,675)	—	(4,675)
Donor-restricted for narrowly restricted purposes	—	(1,664)	—	(1,664)
Board-designated	(2,717)	—	—	(2,717)
Total appropriation	(2,717)	(6,339)	—	(9,056)
Transfers	—	—	222	222
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

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 $35,000 and $30,000 as of June 30, 2015 and 2014, 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, 2015 and 2014 (in thousands):

	2015	2014
Instruction and departmental research	$ 30,118	30,490
General administration	11,475	11,095
Student services	10,267	9,505
Library	2,424	2,446
Auxiliary enterprises	15,510	15,545
	$ 69,794	69,081

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 $2,763,000 and $2,853,000 in 2015 and 2014, respectively.

(12) 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.

(13) 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.

(14) Subsequent Events

The College has evaluated subsequent events through October 5, 2015, the date that the financial statements were issued, and no matters required adjustment to or disclosure in the accompanying financial statements.