Goucher College

Financial Statements

June 30, 2017

BAKER TILLY

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Goucher College

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Independent Auditors' Report

Board of Trustees
Goucher College

We have audited the accompanying financial statements of Goucher College (the "College"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Goucher College as of June 30, 2016, were audited by other auditors whose report dated October 21, 2016, expressed an unmodified opinion on those statements.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
October 20, 2017

Goucher College

Statements of Financial Position
June 30, 2017 and 2016
(In Thousands)

	2017	2016
Assets		
Cash	$ 8,654	$ 9,331
Accounts and loans receivable, net	4,105	4,147
Contributions receivable, net	2,203	1,466
Deposits with bond trustee	546	469
Investments	225,450	207,478
Split interest agreements	5,201	10,450
Investment in plant assets, net	142,563	138,075
Other assets	1,327	1,028
Total assets	$ 390,049	$ 372,444
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 9,894	$ 9,111
Deferred revenues and deposits	3,079	2,782
Payables under split interest agreements	2,013	1,477
Long-term debt	84,232	83,120
Obligation under interest rate swap agreements	4,684	6,864
Refundable advances from U.S. government	2,570	2,536
Other liabilities	8,670	4,533
Total liabilities	115,142	110,423
Net Assets		
Unrestricted	96,566	87,233
Temporarily restricted	90,656	88,745
Permanently restricted	87,685	86,043
Total net assets	274,907	262,021
Total liabilities and net assets	$ 390,049	$ 372,444

See notes to financial statements

Goucher College

Statements of Activities
Year Ended June 30, 2017 (with comparative totals for the year ended June 30, 2016)
(In Thousands)

	2017				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2016 Total**
Revenues, Gains, and Support					
Tuition and fees, net of student aid of $34,592 in 2017 and $31,941 in 2016	$ 32,543	$ -	$ -	$ 32,543	$ 33,341
Government appropriations	2,428	-	-	2,428	2,175
Contributions	3,368	5,210	747	9,325	7,513
Auxiliary enterprises	16,120	-	-	16,120	15,438
Other sources	1,180	18	-	1,198	1,774
Endowment assets appropriated for expenditure	10,971	1,174	-	12,145	11,793
Net assets released from restrictions	9,297	(9,297)	-	-	-
Total revenues, gains, and support	75,907	(2,895)	747	73,759	72,034
Expenses					
Salaries, wages, and fringe benefits	40,307	-	-	40,307	39,998
Depreciation	8,520	-	-	8,520	8,726
Utilities, plant, and equipment expenses	4,051	-	-	4,051	3,805
Food service expenses	4,223	-	-	4,223	4,136
Interest expense on long-term debt	2,635	-	-	2,635	2,767
Student wages and awards	1,836	-	-	1,836	1,684
Outside services and independent contractors	2,565	-	-	2,565	2,282
Student and faculty travel	1,685	-	-	1,685	1,700
Supplies and other	5,538	-	-	5,538	5,685
Total expenses	71,360	-	-	71,360	70,783
Excess of revenues, gains, and support over (under) expenses	4,547	(2,895)	747	2,399	1,251
Other					
Realized loss on the early extinguishment of debt	(154)	-	-	(154)	-
Change in fair value of interest rate swap agreements	2,180	-	-	2,180	(1,008)
Net realized and unrealized gains (losses) on investments, net of amounts appropriated for expenditure	987	6,579	895	8,461	(17,715)
Net assets released from restrictions for investment in plant assets	1,773	(1,773)	-	-	-
Increase (decrease) in net assets	9,333	1,911	1,642	12,886	(17,472)
Net Assets at Beginning of Year	87,233	88,745	86,043	262,021	279,493
Net Assets at End of Year	$ 96,566	$ 90,656	$ 87,685	$ 274,907	$ 262,021

See notes to financial statements

Goucher College

Statements of Activities
Year Ended June 30, 2016
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Support				
Tuition and fees, net of student aid of $31,941 in 2016	$ 33,341	$ -	$ -	$ 33,341
Government appropriations	2,175	-	-	2,175
Contributions	2,480	3,079	1,954	7,513
Auxiliary enterprises	15,438	-	-	15,438
Other sources	1,759	3	12	1,774
Endowment assets appropriated for expenditure	10,569	1,224	-	11,793
Net assets released from restrictions	2,448	(2,448)	-	-
Total revenues, gains, and support	68,210	1,858	1,966	72,034
Expenses				
Salaries, wages, and fringe benefits	39,998	-	-	39,998
Depreciation	8,726	-	-	8,726
Utilities, plant, and equipment expenses	3,805	-	-	3,805
Food service expenses	4,136	-	-	4,136
Interest expense on long-term debt	2,767	-	-	2,767
Student wages and awards	1,684	-	-	1,684
Outside services and independent contractors	2,282	-	-	2,282
Student and faculty travel	1,700	-	-	1,700
Supplies and other	5,685	-	-	5,685
Total expenses	70,783	-	-	70,783
Excess of revenues, gains, and support (under) over expenses	(2,573)	1,858	1,966	1,251
Other				
Change in fair value of interest rate swap agreements	(1,008)	-	-	(1,008)
Net realized and unrealized losses on investments, net of amounts appropriated for expenditure	(4,070)	(12,773)	(872)	(17,715)
Net assets released from restrictions for investment in plant assets	325	(325)	-	-
(Decrease) increase in net assets	(7,326)	(11,240)	1,094	(17,472)
Net Assets at Beginning of Year	94,559	99,985	84,949	279,493
Net Assets at End of Year	$ 87,233	$ 88,745	$ 86,043	$ 262,021

See notes to financial statements

Goucher College

Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017	2016
Cash Flows from Operating Activities		
Tuition and auxiliary enterprises receipts	$ 48,741	$ 48,656
Government appropriations	2,245	2,138
Contributions received for operating purposes	3,793	3,205
Investment income	207	1,282
Other sources	1,053	847
Payments to employees and suppliers	(60,545)	(59,291)
Interest paid	(2,967)	(2,856)
Net cash used in operating activities	(7,473)	(6,019)
Cash Flows from Investing Activities		
Purchases of investments	(76,995)	(75,556)
Proceeds from sales and maturities of investments	86,008	87,162
Purchases of property and equipment	(12,793)	(15,210)
Proceeds from sales of property and equipment	-	1,007
Student loan disbursements	(163)	(320)
Student loan principal payments	381	243
Change in deposits with bond trustee, net	(77)	1
Net cash used in investing activities	(3,639)	(2,673)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term investment	9,365	4,190
Investment income reinvested, restricted funds	-	12
Proceeds from bond issue	63,552	-
Payments of bonds payable	(61,635)	(1,935)
Cash paid for bond issuance costs	(881)	-
Increase in refundable advances from U.S. government	34	27
Net cash provided by financing activities	10,435	2,294
Net decrease in cash and cash equivalents	(677)	(6,398)
Cash at Beginning of Year	9,331	15,729
Cash at End of Year	$ 8,654	$ 9,331

See notes to financial statements

Goucher College

Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017	2016
Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities		
Increase (decrease) in net assets	$ 12,886	$ (17,472)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	8,520	8,726
Net realized and unrealized (gains) and losses on investments	(20,770)	6,889
Change in fair value of interest rate swap agreements	(2,180)	1,008
Realized loss on early exinguishment of debt	154	-
Amortization of bond discount, premium, and deferred bond costs	(78)	(74)
Amortization of asset retirement obligation	-	103
Contributions restricted for long-term investment	(4,365)	(4,190)
Investment income reinvested, restricted funds	-	(12)
Gain on sales of property and equipment	-	(347)
Change in accounts receivable, net	(176)	(159)
Decrease in contributions receivable and receivables under split interest agreement, net	(1,167)	(118)
Increase in accounts payable and accrued liabilities, deferred revenues, deposits, and other liabilities	2	(208)
Change in other assets, net	(299)	(165)
Net cash used in operating activities	(7,473)	(6,019)
Supplemental Noncash Disclosure		
Accounts payable and other liabilities relating to property and equipment purchases	$ 4,201	$ 3,986

See 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 and realized loss on the early extinguishment of debt 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, 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, interest rate swap valuation, 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. 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, 2017 and 2016, 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.

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, 2017, the College had $1,849,000 of gift annuity liabilities recorded in payables under split interest agreements and $2,340,000 of corresponding investments that have been separately invested, as required by the State of Maryland. 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.

(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 16% and 17%, respectively, of tuition and room and board revenues in 2017 and 2016, 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 2017 or 2016.

Management has analyzed the tax positions taken by the College and has concluded that as of June 30, 2017 and 2016, 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 statement of financial position. The change in the fair value of the swap is recognized in the statements of activities.

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

(l) New Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers*. This new accounting guidance updates the core principles that the College should apply in the recognition of revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update is effective for the College’s fiscal year beginning July 1, 2018; early application is permitted for the fiscal year beginning after July 1, 2017. The College will be determining its implementation approach and assessing the impact this guidance may have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This amendment will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. Under this amendment a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The amendment results in changes to lease disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This update is effective for the College's fiscal year beginning July 1, 2019; early adoption is permitted. The College will be determining its implementation approach and assessing the impact this guidance may have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. This update is effective for the College's fiscal year beginning July 1, 2018; early adoption is permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The College is assessing the impact this standard may have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* This standard addresses diversity in practice that exists in the classification and presentation of changes in restricted cash in the statement of cash flows. ASU 2016-18 requires that a statement of cash flows explain the change during the period to the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of the period and end of the period total amounts shown on the statement of cash flows. ASU 2016-18 does not provide a definition of restricted cash or restricted cash equivalents. This update is effective for the College's fiscal year beginning July 1, 2020; early application is permitted. The College will be determining its implementation approach and assessing the impact this guidance may have on its financial position.

(m) Reclassification of Prior Year Amounts

Certain amounts from the prior year have been reclassified to conform to the current year presentation and did not affect changes in net assets or total net assets.

2. Accounts and Loans Receivable

Accounts and loans receivable, net are summarized as follows as of June 30, 2017 and 2016 (in thousands):

	2017	2016
Loans to students	$ 2,374	$ 2,600
Amounts receivable from federal, state, and local governments	973	790
Accounts receivable from students	778	559
Other	209	325
Total accounts and loans receivable, gross	4,334	4,274
Less: Allowance for doubtful accounts receivable	229	127
Total accounts and loans receivable, net	$ 4,105	$ 4,147

3. Contributions Receivable

Contributions receivable, net are summarized as follows as of June 30, 2017 and 2016 (in thousands):

	2017	2016
Unconditional promises expected to be collected in:		
Less than one year	$ 896	$ 880
One year to five years	659	555
Thereafter	892	204
	2,447	1,639
Less: Allowance for uncollectible pledges	110	117
Less: Unamortized discount (interest rates ranging from 0.41% to 4.50%)	134	56
Total contributions receivable, net	$ 2,203	$ 1,466

As of June 30, 2017 and 2016, 78% and 49%, respectively, of the contributions receivable was due from five donors. 58% and 40%, respectively, of contributions revenue for 2017 and 2016 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: Unadjusted quoted or published prices for identical assets or liabilities in active markets that the College has the ability to access

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 (2.6% at June 30, 2017). 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 2014 IAR mortality tables at June 30, 2017 and 2016, 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, 2017 and 2016 (in thousands):

	2017				
	Total	**Level 1**	**Level 2**	**Level 3**	**NAV (1)**
Financial assets:					
Investments:					
Cash and short-term investments held by managers	$ 707	$ 707	$ -	$ -	$ -
Fixed income securities:					
U.S. Treasuries	9,922	9,922	-	-	-
Corporate	11,306	-	11,306		
Total fixed income	21,228	9,922	11,306	-	-
Mutual funds:					
Developed markets equities	39,900	39,900	-	-	-
Fixed income	16,162	16,162	-	-	-
Commodities	5,846	5,846	-	-	-
Managed futures	5,725	5,725	-	-	-
Multi-asset	6,618	6,618	-	-	-
Emerging markets equities	3,661	3,661	-	-	-
Total mutual funds	77,912	77,912	-	-	-
Common collective trusts	80,175	32,506	-	-	47,669
Hedge funds	23,896	-	-	-	23,896
Limited partnership interests	21,532	-	-	-	21,532
Total investments	$ 225,450	$ 121,047	$ 11,306	$ -	$ 93,097
Other assets:					
Deposits with bond trustee	$ 546	$ 546	$ -	$ -	$ -
Split interest agreements	5,201	-	-	5,201	-
Financial liabilities:					
Interest rate swaps	(4,684)	-	(4,684)	-	-

	2016				
	Total	**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)	-	-

(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 statement of financial position.

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, 2017 and 2016 (in thousands):

	Split Interest Agreements
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
Investment income, net of fees	161
Net realized and unrealized gains	1,360
Distributions	(6,770)
Ending balance, June 30, 2017	$ 5,201

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:

	2017	2016
Revenue, gains, and support	$ 12,516	$ 12,120
Other	8,461	(17,715)
Total investment return	$ 20,977	$ (5,595)

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, 2017, the majority of the College’s portfolio was redeemable either on a daily or monthly basis, and investments aggregating $36,815,000 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, 2017 and 2016:

Investment	Fair Value 2017	Fair Value 2016	Unfunded Commitments 2017	Unfunded Commitments 2016	Redemption Frequency (if currently eligible)	Redemption Notice Period
Common collective trust funds (a)	$ 47,669	$ 39,725	N/A	N/A	Monthly	1 - 30 days
Hedge funds:						
Long and short (b)	4,620	4,114	N/A	N/A	Quarterly	45 days
Absolute return (c)	10,663	9,839	N/A	N/A	Quarterly	65 days
Covered options (d)	8,613	5,847	N/A	N/A	Monthly	5 days
Limited partnership interests:						
Private equity (e)	6,353	8,291	1,724	1,812	N/A	N/A
Venture capital (f)	11,561	10,835	13,737	9,529	N/A	N/A
Private real estate and resources (g)	3,618	3,608	4,797	5,336	N/A	N/A
Total	$ 93,097	$ 82,259	$ 20,258	$ 16,677		

(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 global equity indexes, 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, 2017, varying from six months through 4 years. Three funds have reached the end of their contractual life but are expected to continue until all assets are liquidated. 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, 2017, varying from 1 through 12 years. Three funds have reached the end of their contractual life but are expected to continue until all assets are liquidated. 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, 2017, varying from six months through 10 years. Distributions are made to investors through the liquidation of the underlying assets.

6. Investment in Plant Assets

Investment in plant assets, net is summarized as follows as of June 30, 2017 and 2016 (in thousands):

	2017	2016
Land and improvements	$ 12,121	$ 11,713
Buildings	194,192	176,692
Furniture, equipment, and library books	33,968	32,948
Construction in progress	10,425	17,172
Total investment in plant assets, gross	250,706	238,525
Less: Accumulated depreciation	108,143	100,450
Total investment in plant assets, net	$ 142,563	$ 138,075

7. Long-Term Debt

Long-term debt is summarized as follows as of June 30, 2017 and 2016 (in thousands):

	2017	2016
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Series 2012A Revenue Bonds	$ 19,945	$ 19,945
MHHEFA Series 2012B Revenue Bonds	-	46,635
MHHEFA Series 2012C Revenue Bonds	-	15,000
MHHEFA Series 2017A Revenue Bonds	57,565	-
MHHEFA Series 2017B Revenue Bonds	2,987	-
Total long-term debt, gross	80,497	81,580
Unamortized premium	4,908	2,014
Deferred bond costs	(1,173)	(474)
Total long-term debt, net	$ 84,232	$ 83,120

On June 21, 2017, MHHEFA Series 2017A Revenue Bonds were issued to refinance the College's MHHEFA Series 2012B and 2012C Revenue Bonds. Series 2017A Revenue Bonds bear interest, payable semiannually, at fixed rates ranging from 3.0% to 5.0%. Serial bonds of $1,860,000 are due July 1, 2018 and serial bonds aggregating $21,335,000 are due in annual installments ranging from $2,535,000 to $4,975,000 beginning July 1, 2034 through July 1, 2038. Term bonds of $34,370,000 are due on July 1, 2044.

On June 21, 2017, the College issued MHHEFA Series 2017B Revenue Bonds. The proceeds, not to exceed $30,000,000, are expected to be drawn down prior to December 31, 2018, and will be used to fund a portion of the cost to complete several residential building projects on campus. The Series 2017B Revenue Bonds bear interest, payable monthly, at a variable rate equal to 67% of one-month LIBOR plus 1.04%. Principal repayments, ranging from $124,000 to $223,000, are due monthly, beginning July 1, 2018 through June 1, 2023.

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.

The 2012A, 2017A and 2017B Revenue Bonds are secured by a pledge of certain revenues of the College and are secured ratably and equally with its obligation under an interest rate swap agreement.

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

Years ending June 30:	
2018	$ -
2019	3,339
2020	2,108
2021	600
2022	970
Thereafter	73,480
Total	$ 80,497

Interest expense of $228,000 and $268,000 was capitalized as part of the construction and renovation projects for 2017 and 2016, respectively.

Interest Rate Swap Agreements

The College entered into a new interest rate swap agreement with a national bank on May 19, 2017, simultaneously terminating its previous two interest rate swap agreements, with the same bank. Interest rate swap agreements are used to manage the College's interest rate risk on its variable rate debt. The agreement extends through June 1, 2033, and provides for the College to pay a fixed rate of 3.49% and receive a variable rate of 67% of the one-month LIBOR (0.81% at June 30, 2017) based on a notional amount of $3,000,000. The notional amount will increase incrementally to $29,500,000 through September 2018, and is scheduled to decrease through June 2033. As of June 30, 2017 and 2016, the fair value of the interest rate swap agreements was a liability of $4,684,000 and $6,864,000, 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 $1,448,000 in 2017 and $1,497,000 in 2016.

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, 2017 and 2016 (in thousands):

	2017	2016
Contributions and income designated for specific purposes	$ 2,622	$ 3,301
Gains on donor-restricted endowment funds not appropriated for expenditure	81,987	75,913
Capital projects	5,255	2,619
Split interest agreements	792	6,912
Total temporarily restricted net assets	$ 90,656	$ 88,745

Permanently restricted net assets consist of the following as of June 30, 2017 and 2016 (in thousands):

	2017	2016
Donor-restricted endowments and pledges	$ 81,463	$ 80,727
Split interest agreements	4,711	3,799
Student loans	1,511	1,517
Total permanently restricted net assets	$ 87,685	$ 86,043

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, 2017 and 2016 (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (82)	$ 81,987	$ 83,484	$ 165,389
Board-designated endowment funds	43,681	507	-	44,188
Total endowed net assets	$ 43,599	$ 82,494	$ 83,484	$ 209,577

	2016			
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

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	(240)	(8,749)	-	(8,989)
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
Investment return:				
Investment income	107	779	-	886
Net appreciation	3,776	14,691	102	18,569
Total investment return	3,883	15,470	102	19,455
Contributions collected	1	-	772	773
Appropriation of endowment assets for expenditure:				
Donor-restricted	-	(9,348)	-	(9,348)
Board-designated	(2,777)	(20)	-	(2,797)
Total appropriation	(2,777)	(9,368)	-	(12,145)
Transfers	-	-	12	12
Endowment net assets, June 30, 2017	$ 43,599	$ 82,494	$ 83,484	$ 209,577

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 $82,000 and $181,000 as of June 30, 2017 and 2016, 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, 2017 and 2016 (in thousands):

	2017	2016
Instruction and departmental research	$ 29,490	$ 30,077
General administration	12,722	12,093
Student services	10,358	10,200
Library	3,147	3,051
Auxiliary enterprises	15,643	15,362
Total	$ 71,360	$ 70,783

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 $2,830,000 and $3,010,000 in 2017 and 2016, respectively.

12. Commitments and 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.

The College entered into construction contracts with unrelated parties, in the amount of $58,462,000, for the construction or renovation of various buildings on campus, as part of a capital improvement plan targeted to enhance the sense of community on campus. At June 30, 2017, $48,768,000 of such contract commitments had not yet been incurred.

13. Subsequent Events

The College has evaluated subsequent events through October 20, 2017, the date that the financial statements were issued, and no matters required adjustment to or disclosure in the accompanying financial statements.