Swarthmore College

Financial Statements
June 30, 2017 and 2016

SWARTHMORE COLLEGE

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June 30, 2017 and 2016

Report of Independent Auditors

To the Board of Managers

We have audited the accompanying consolidated financial statements of Swarthmore College, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016 and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Swarthmore College's preparation and fair presentation of the consolidated 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 Swarthmore College'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Swarthmore College as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 18, 2017

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SWARTHMORE COLLEGE

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2017 and 2016
(in thousands)

ASSETS	**2017**	**2016**
Cash and cash equivalents	$ 28,432	$ 42,811
Accounts receivable, net	1,681	3,224
Prepaid expenses and inventories	2,436	3,156
Short term investments	15,051	-
Contributions receivable	18,309	21,258
Student loans receivable, net	474	588
Employee mortgages receivable	11,697	11,992
Assets restricted to investment in property and equipment	47,181	58,488
Property and equipment, net	339,144	299,878
Investments, at fair value		
Endowment	1,955,532	1,746,962
Life income and annuity	41,761	41,030
Other	20,578	48,186
Total assets	**$ 2,482,276**	**$ 2,277,573**
LIABILITIES		
Accrued compensation	$ 9,103	$ 8,533
Payables and other accruals	14,693	10,353
Student deposits	1,473	1,594
Deferred payments and other liabilities	48,498	63,953
Refundable government loan funds	176	349
Bonds payable, net	274,726	261,130
Total liabilities	**348,669**	**345,912**
NET ASSETS		
Unrestricted	$ 916,658	$ 782,732
Temporarily restricted	998,944	939,250
Permanently restricted	218,005	209,679
Total net assets	**2,133,607**	**1,931,661**
Total liabilities and net assets	**$ 2,482,276**	**$ 2,277,573**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2017
(in thousands)

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total 2017
Operating revenues:				
Student tuition and fees	$ 79,923	$ -	$ -	$ 79,923
Room and board	20,882			20,882
Less student aid	(38,218)			(38,218)
Net student tuition and fees	62,587	-	-	62,587
Revenues from investments				
Endowment spending distribution	74,269	3,536		77,805
Other	561			561
Private gifts and grants	6,849	2,434		9,283
Government grants	2,254			2,254
Auxiliary activities - other	9,432	1,003		10,435
Transfers among net asset classes	570	(570)		-
Net assets released from restrictions	5,061	(5,061)		-
Total operating revenue	**161,583**	**1,342**	**-**	**162,925**
Operating expenses:				
Instruction	57,318			57,318
Academic support	23,112			23,112
Student services	14,262			14,262
Institutional support	28,187			28,187
Auxiliary activities	32,815			32,815
Research and public service	5,638			5,638
Total operating expenses	**161,332**	**-**	**-**	**161,332**
Increase in net assets from operating activities	**251**	**1,342**	**-**	**1,593**
Nonoperating activities:				
Net realized and unrealized gain (loss) on investments, net of endowment spending	73,876	97,349	-	171,225
Gifts and grants	16,013	47	7,463	23,523
Change in present value of life income funds		1,282		1,282
Maturities of annuity and life income funds	1,851	(2,371)	520	-
Change in other post retirement benefits	(24)			(24)
Gain on extinguishment of debt	1,595			1,595
Other	(474)	3,189	37	2,752
Transfers among net asset classes	40,586	(40,892)	306	-
Net assets released from restrictions	252	(252)		-
Increase in net assets from nonoperating activities	**133,675**	**58,352**	**8,326**	**200,353**
Net increase in net assets for the year	**133,926**	**59,694**	**8,326**	**201,946**
Net Assets, June 30, 2016	**782,732**	**939,250**	**209,679**	**1,931,661**
Net Assets, June 30, 2017	**$ 916,658**	**$ 998,944**	**$ 218,005**	**$ 2,133,607**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2016
(in thousands)

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total 2016
Operating revenues:				
Student tuition and fees	$ 74,754	$ -	$ -	$ 74,754
Room and board	19,601			19,601
Less student aid	(34,532)			(34,532)
Net student tuition and fees	59,823	-	-	59,823
Revenues from investments				
Endowment spending distribution	68,718	2,692		71,410
Other	567			567
Private gifts and grants	6,716	2,517		9,233
Government grants	2,270			2,270
Other additions	6,311	745		7,056
Transfers among net asset classes	678	(678)		-
Net assets released from restrictions	5,104	(5,104)		-
Total operating revenue	**150,187**	**172**	**-**	**150,359**
Operating expenses:				
Instruction	53,303			53,303
Academic support	21,601			21,601
Student services	13,367			13,367
Institutional support	27,752			27,752
Auxiliary activities	26,297			26,297
Research and public service	5,766			5,766
Total operating expenses	**148,086**	**-**	**-**	**148,086**
Increase in net assets from operating activities	**2,101**	**172**	**-**	**2,273**
Nonoperating activities:				
Net realized and unrealized gain on investments, net of endowment spending	(14,192)	(97,845)	-	(112,037)
Gifts and grants	2,123	4,993	3,472	10,588
Change in present value of life income funds		(1,763)		(1,763)
Maturities of annuity and life income funds	454	(3,821)	3,367	-
Change in other post retirement benefits	(2,673)			(2,673)
Other	(862)	2,965	42	2,145
Transfers among net asset classes	(223)	(2)	225	-
Net assets released from restrictions	135	(135)	-	-
Decrease in net assets from nonoperating	**(15,238)**	**(95,608)**	**7,106**	**(103,740)**
Net decrease in net assets for the year	**(13,137)**	**(95,436)**	**7,106**	**(101,467)**
Net Assets, June 30, 2015	**795,869**	**1,034,686**	**202,573**	**2,033,128**
Net Assets, June 30, 2016	**$ 782,732**	**$ 939,250**	**$ 209,679**	**$ 1,931,661**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 201,946	$ (101,467)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	11,607	8,633
Asset impairment	2,141	2,049
Gain on extinguishment of debt	(1,595)	-
Amortization of bond premium	(2,631)	(1,552)
Donor restricted gifts	(5,776)	(10,353)
Receipt of contributed securities	(5,623)	(2,982)
Proceeds of contributed securities	1,030	852
Net unrealized and realized loss (gains) on investments	(256,549)	45,896
Gain on sale of property	(84)	-
Change in student loan reserve	(15)	(10)
Return of federal loan funds	(173)	(1,393)
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	5,212	2,278
Change in deferred payments and other liabilities	(15,455)	4,971
Change in student deposits, payables and accruals	(1,367)	(5,863)
Net cash used by operating activities	**(67,332)**	**(58,941)**
Cash flows from investing activities		
Purchase of property and equipment	(47,738)	(30,490)
Proceeds from sale of property	518	-
Proceeds from sale of investments	943,178	824,320
Purchase of investments	(883,330)	(731,053)
Student loans and employee mortgages advanced	(1,079)	(554)
Payments on students loans and employee mortgages	1,501	1,585
Net cash provided by investing activities	**13,050**	**63,808**
Cash flows from financing activities		
Donor restricted gifts	5,776	10,353
Proceeds from contributed securities designated for purchase of property and equipment and long-term investment	4,551	2,130
Change in assets restricted to investment in property and equipment	11,307	(50,437)
Proceeds from bonds and notes payable	98,944	59,997
Advance refunding of bonds	(73,355)	-
Payments on bonds and notes payable	(7,320)	(6,260)
Net cash provided by financing activities	**39,903**	**15,783**
Change in cash and cash equivalents	**(14,379)**	**20,650**
Cash and cash equivalents, beginning of year	42,811	22,161
Cash and cash equivalents, end of year	**$ 28,432**	**$ 42,811**
Cash paid for interest, net of amounts capitalized	$ 9,736	$ 9,246
Non-cash capital expenditures in accounts payable	$ 6,156	$ 3,567

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting and Reporting Policies

Reporting Entity

Swarthmore College (the College) is a private coeducational college of liberal arts and engineering located in Swarthmore, Pennsylvania.

The consolidated financial statements of Swarthmore College include a wholly-owned, for-profit company, Marjay Productions, Inc., which was a bequest from a donor. The purposes of Marjay Productions, Inc. are to hold copyrights of the donor's works and to receive royalties. Its financial operations are immaterial to Swarthmore College as a whole.

The consolidated financial statements of Swarthmore College also include a wholly-owned, for-profit, sole member Pennsylvania Limited Liability Corporation named Parrish LLC. The purpose of Parrish LLC is to operate an inn and restaurant facility in the Borough of Swarthmore, PA. Its financial operations are immaterial to Swarthmore College as a whole.

Basis of Presentation

The College's consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The principles require that net assets, revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these net assets permit the College to use all or part of the income earned. Contributions of permanently restricted net assets are primarily invested in the College's permanent endowment funds.

Temporarily Restricted - Net assets whose use by the College is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Expiration of the restriction is reported by reclassification from temporarily restricted to unrestricted net assets.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Managers, as quasi endowment, or may otherwise be considered limited by contractual agreements with outside parties.

Revenues and net gains are reported as increases in unrestricted net assets unless the revenue is specifically restricted by the donor. Expenses are reported as decreases in unrestricted net assets. Periodically donor restrictions related to net assets may be clarified or changed; such changes are reflected as fund transfers in the period in which they are identified.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the valuation of alternative investments, allowance for doubtful accounts and accrued employee benefits. Actual results could differ from those estimates.

Cash Equivalents
Cash equivalents are readily convertible to cash and have an original maturity date of three months or less from the date purchased. Pooled endowment fund cash equivalents invested with managers are classified as investments.

Short Term Investments
Short term investments are certificates of deposits that have a maturity date of greater than three months from June 30, 2017.

Reclassifications
Certain amounts in the 2016 financial information have been reclassified to conform to the 2017 fiscal presentation.

New Accounting Pronouncements
In November 2016, the FASB issued an amendment to the *Topic 230 - Statement of Cash Flows* related to Restricted Cash. This standard provides specific guidance on the treatment of restricted cash on the Statement of Cash Flows. This standard is for fiscal years beginning after December 15, 2017. The College will adopt this standard for the Fiscal Year 2019 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

In April 2015, the FASB issued a standard on *Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs*. This standard simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. The new standard is limited to the presentation of debt issuance costs and does not affect their recognition and measurement. The standard was effective for fiscal years beginning after December 15, 2015. The College adopted this standard for year ended June 30, 2017 and has retrospectively amended the classification on the statement of financial position for debt issuance costs.

In May 2015, the FASB issued a standard on *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under this new standard investments measured at net asset value “NAV” as a practical expedient for fair value are excluded from the fair value hierarchy. The College has adopted this standard for year ended June 30, 2017 and has retrospectively amended the Footnote 3 for the disclosure of investments.

Accounting Pronouncements not yet adopted
In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard is a comprehensive accounting model for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. Within the revenue model, revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. In July 2015, the FASB approved a one-year deferral of the effective date. This standard is for fiscal years beginning after December 15, 2017. The College will adopt this standard for the Fiscal Year 2019 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

In February 2016, the FASB issued a standard on Leases. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases with terms in excess of 12 months. The recognition, measurement and presentation arising from a lease will primarily depend on classification as a financing or operating lease. The standard is effective for fiscal years beginning after December 15, 2018. The College will adopt this standard for the Fiscal Year 2020 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

In August 2016, the FASB issued a standard on Presentation of Financial Statements for Not-for-Profit Entities. This standard makes targeted changes to the not-for-profit financial reporting model. The existing three-categories of net assets will be replaced with a model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions”. The standard requires disclosures on the liquidity of assets and ability to meet near-term financial requirements and requires disclosure about internal transfers that are included in the operating measure. The standard is effective for fiscal years beginning after December 15, 2017. The College will adopt this standard for the Fiscal Year 2019 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

Investments
Refer to the Investments Footnote 3 for the investments reporting policy.

Property and Equipment
Property and equipment is stated at cost less accumulated depreciation. Expenditures for new construction, major renovations and equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of building (60 years), building improvements (25 years), land improvements (15 years) and equipment (5 years). For the year ended June 30, 2017, building improvements has been added an asset class and the change in useful life for buildings reclassified into building improvements is being recognized prospectively. Construction in progress is depreciated over the useful life of the respective assets once the asset is put into service. Operating expenses associated with the operation and maintenance of plant assets, as well as interest and depreciation expense, are allocated on the basis of square footage utilized by the functional classification of expense.

Works of art, historical treasures and similar assets are recognized at their estimated fair value at the time of gift based upon appraisals or similar valuations. All material items, whether contributed or purchased, have been capitalized. Works of art, historical treasures and similar assets are not subject to depreciation.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. Two academic buildings scheduled for demolition due to construction of a new academic building had accelerated depreciation recognized as an impairment of $2,141 and $2,049 for the years ended June 30, 2017 and 2016, respectively.

Contributions
Contributions and investment income with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted revenues. Contributions and investment income with donor-imposed restrictions that are not met in the same year as received or earned are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed a stipulated time restriction is met or purpose restrictions are satisfied. Contributions of assets other than cash are reported at their estimated fair value. Conditional promises to give are not recognized until the conditions are substantially met. Contributions restricted for the acquisition of property and equipment are reported as temporarily restricted net assets within the non-operating section of the consolidated statement of activities until the asset is placed in service. These contributions are recorded in assets in the accompanying statement of financial position under the caption, “Assets restricted to investment in property and equipment” until utilized for their intended purpose.

Contributions receivable are recorded at present value net of any allowance for uncollectible contributions. Present values are determined using the applicable market rate in the period contributions are recognized, which ranges from 0.95% to 5.06%.

(dollars in thousands)

Compensated Absences
Accrued compensation includes vacation time earned by hourly and staff employees, but not yet taken as of fiscal year-end. A staff employee is entitled to receive pay in lieu of vacation upon termination. Employees may accrue a maximum of 240 hours of vacation. Accrued vacation payable amounted to $2,809 and $2,620 as of June 30, 2017 and 2016, respectively.

College Housing Programs
For employees who meet certain eligibility requirements, the College has a rental and mortgage assistance program. The goal of the programs is to encourage eligible faculty and staff to live close to campus for the enhancement of the community and greater access for students.

The College Mortgage Loan program permits 20, 25, 30 or 40 year monthly amortizing first mortgage loans of up to 100% of the College appraised value (subject to a cap) for homes which are within a specified distance to faculty, instructional staff and other staff members who meet certain eligibility requirements. Mortgages are to be paid off in full within 360 days of the termination of employment for any reason (death, retirement or severance). The interest rate on such mortgage loans is reviewed and updated on a quarterly basis. Management evaluates current economic conditions and collection history to determine if an allowance is necessary. Currently, there are no associated allowances for the receivables held under this program.

The College owns a number of houses and apartments which are rented to faculty, instructional staff and other staff members who meet certain eligibility requirements.

Subsequent Events
The College evaluated and concluded that there were no reportable subsequent events for the period from June 30, 2017, the date of the financial statements, through September 18, 2017, the date of the issuance of the financial statements.

2. Contributions Receivable

Contributions receivable at June 30, 2017 and 2016 were as follows:

Due in:	2017	2016
Less than one year	$10,638	$13,859
One to five years	7,026	6,552
More than five years	1,788	1,741
	19,452	22,152
Unamortized discount	(550)	(489)
Allowance for doubtful contributions	(593)	(405)
	$18,309	$21,258

3. Investments

The College records its investments at fair value in accordance with generally accepted accounting principles. The value of publicly-traded fixed income and equity securities are based upon quoted market prices at the close of business on the last day of the fiscal year. As a practical expedient, the College is permitted to record the fair value of an investment at the measurement date using the reported net asset value "NAV" or capital account balance without further adjustment in most cases. When the reported NAV or capital account balance is not at the measurement date, the most current NAV or capital account balance adjusted for subsequent cash flows is used. The College has determined that this fairly represents fair value as of June 30, 2017 and 2016.

The College's interests in private equity and real asset limited partnerships and other nonmarketable investments managed by investment companies are carried at the capital account balance or NAV as determined by the investment managers as of June 30, 2017 and 2016. Although certain investments may be sold in secondary market transactions, the secondary market is not active and therefore it is reasonably possible that if the College were to sell its interest in a fund in the secondary market, the transaction could be materially different than the reported fair value. The College performs additional due diligence and reviews these for reasonableness. The College has assessed factors including, but not limited to, managers' audited financial statements, price transparency, valuation policies, redemption conditions and restrictions.

Endowment investments include the College's permanent, term, and quasi-endowment funds. Although quasi-endowment funds have been established by the Board of Managers for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Annuity, unitrust and life income funds periodically pay either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate at a designated time, usually upon the death of the last designated income beneficiary. The College's remainder interest is then available for use by the College as designated by either the donor or the Board of Managers. The actuarial liability for the charitable gift annuities as of June 30, 2017 and 2016 is based on the present value of future payments discounted at rates that vary by participant from 1.2% to 11.6% and based upon the 2015 IAR Mortality Table and 2000CM Mortality Table. The actuarial liability for the unitrusts as of June 30, 2017 and 2016 is based on the present value of future payments discounted at rates that vary by trust from 5% to 9% and the Annuity 2000 Mortality Table. The fair value of life income assets, invested in Level 1 equity or debt securities, are measured at fair value on a recurring basis at quoted market prices.

The endowment objective established by the Board of Managers is to provide a sustainable level of distribution in support of the College's annual operating budget while preserving the real purchasing power of the endowment before gifts. The endowment provides significant support of the College's operations; therefore, endowment policies seek to achieve stability and sustained growth in this support. The Board of Managers sets the level of distribution of endowment return annually. In fiscal years 2017 and 2016, the endowment distribution exceeded its net yield (interest and dividends less fees) and therefore net realized gains in the amount $85,324 and $66,141, were allocated for endowment spending distribution.

Net realized and unrealized gains on permanently restricted investments are included as either unrestricted or temporarily restricted revenues unless stipulated by the donor as restricted for perpetuity. The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment, use and management of the College's endowment funds. Commonwealth of Pennsylvania law permits the College to reclassify each year a portion of these net realized gains. The amount so designated when added to net yield (interest and dividends less fees) cannot exceed 7% of the average of the past three fiscal years' fair values of the permanently restricted assets. Pursuant to this Commonwealth of Pennsylvania law, $12,789 and $13,871 of net realized gains were released from restriction and included in unrestricted revenues in fiscal years 2017 and 2016, respectively.

The College has various sources of internal liquidity at its disposal, including cash, cash equivalents, marketable debt and equity securities. If called upon at June 30, 2017, management estimates that it could have liquidated within 30 days approximately $807 million (unaudited) to meet short-term needs and provide investment flexibility.

(dollars in thousands)

A summary of investment activity for fiscal years 2017 and 2016 is as follows:

	Endowment funds	Annuity and Life Income funds	Other	2017 Total	2016 Total
Investments, beginning of the year	$ 1,746,962	$ 41,030	$ 48,186	$ 1,836,178	$ 1,975,341
Contributions	8,875	230	647	9,752	11,050
Maturities of annuity and life income funds		(2,823)		(2,823)	(2,474)
Other		(244)	200	(44)	(806)
Transfers in	36,081			36,081	5,200
Transfers out	(9,654)		(29,741)	(39,395)	(44,649)
	35,302	(2,837)	(28,894)	3,571	(31,679)
Investment return	257,710	5,120	1,286	264,116	(28,780)
Investment management fees	(6,637)			(6,637)	(6,779)
	251,073	5,120	1,286	257,479	(35,559)
Payments to annuity and life income beneficiaries		(1,552)		(1,552)	(515)
Endowment spending distribution					
Unrestricted	(74,269)			(74,269)	(68,718)
Temporarily Restricted	(3,536)			(3,536)	(2,692)
	(77,805)	(1,552)	-	(79,357)	(71,925)
Investments, end of year	$ 1,955,532	$ 41,761	$ 20,578	$ 2,017,871	$ 1,836,178

The generally accepted hierarchy for fair value measurements is based on the transparency of information used in the valuation of an asset or liability as of the measurement date. In determining fair value, valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. Certain investments that are measured at fair value using the net asset value per share or its equivalent (NAV) as a practical expedient have been categorized separately in the fair value hierarchy.

- Level I- Quoted prices are available in active markets for identical investments as of the measurement date.
- Level II- Pricing inputs, other than exchange-quoted prices in active markets, are either directly or indirectly observable as of the measurement date. Certain investments with structures similar to registered mutual funds may have readily determinable fair value in the NAV is determined, published and used as the basis for transactions.
- Level III- Pricing inputs are unobservable and there is minimal (if any) market data.

The College’s investment objectives guide its asset allocation policy and are achieved by investing with external investment management firms who utilize different investment strategies and operate through a variety of investment vehicles, including separate accounts, commingled funds managed by investment companies and limited partnerships. The College has investments in six asset categories. Cash and Cash Equivalents are investments in short-term cash and money market instruments. These are able to be liquidated immediately or within 30 days. Fixed Income includes investment in fixed income securities, such as U.S. Treasury bonds and Treasury Inflation-Protected securities. Public Equity includes investment in publicly-traded stocks of domestic and international companies. Real Assets include investments in real estate and natural resources such as oil and gas and commodities. Private Equity includes investments in buyouts, venture capital and distressed companies. Private Opportunistic Credit includes investments in corporate direct lending, real assets, financial assets and distressed debt. Marketable Alternatives include investments in equity hedge funds, risk arbitrage and distressed securities.

(dollars in thousands)

A summary of investments, measured by the fair value hierarchy at June 30, 2017 were as follows:

	Investments Measured at NAV	Level I	Level II	Level III	Total
Endowment					
Cash and Cash Equivalents	$ -	$ 145,442	$ -	$ -	$ 145,442
Fixed Income	41,369	72,891			114,260
Public Equity	302,086	91,847	$ 484,842		878,775
Real Assets	196,658	23,237	21,319		241,214
Private Equity	323,419				323,419
Opportunistic Credit	26,630				26,630
Marketable Alternatives	225,792				225,792
Total Endowment	$ 1,115,954	$ 333,417	$ 506,161	$ -	$ 1,955,532
Life income		41,761			41,761
Other		17,963		2,615	20,578
Total Investments	$ 1,115,954	$ 393,141	$ 506,161	$ 2,615	$ 2,017,871

Changes to the reported amounts of investments measured at fair value on a recurring basis using significant unobservable (Level III) inputs as of June 30, 2017 is as follows:

	Fair Value June 30, 2016	Investment return	Purchases	Sales	Fair Value June 30, 2017
Other Investments	$ 1,842	29	1,051	(307)	$ 2,615

A summary of investments, measured by the fair value hierarchy at June 30, 2016 were as follows:

	Investments Measured at NAV	Level I	Level II	Level III	Total
Endowment					
Cash and Cash Equivalents	$ -	$ 70,924	$ -	$ -	$ 70,924
Fixed Income	41,929	66,291			108,220
Public Equity	269,210	109,311	424,022		802,543
Real Assets	172,523	31,411	19,881		223,815
Private Equity	296,403				296,403
Opportunistic Credit	10,804				10,804
Marketable Alternatives	234,253				234,253
Total Endowment	$ 1,025,122	$ 277,937	$ 443,903	$ -	$ 1,746,962
Life income		41,030			41,030
Other		46,344		1,842	48,186
Total Investments	$ 1,025,122	$ 365,311	$ 443,903	$ 1,842	$ 1,836,178

(dollars in thousands)

Changes to the reported amounts of investments measured at fair value on a recurring basis using significant unobservable (Level III) inputs as of June 30, 2016 were as follows:

	Fair Value June 30, 2015	Investment return	Purchases	Sales	Fair Value June 30, 2016
Other Investments	$ 1,831	2	158	(149)	$ 1,842

For the fiscal years ended June 30, 2017 and 2016 there were no transfers between levels within the fair value hierarchy other than the retrospective reclassification of investments reported at NAV or its equivalent as a practical expedient to estimate fair value.

The College has commitments to various limited partnerships. The College expects the majority of these funds to be called over the next four years with liquidity to be received over the next fifteen years. The fair value of outstanding commitments at June 30, 2017 and 2016 were:

	2017	2016
Private equity	$267,926	$259,361
Real Assets	153,892	141,137
Opportunistic Credit	32,806	29,496
Total unfunded commitments	$454,624	$429,994

The College has a unitization system for the management of endowments. All endowments are invested in a single pool of investment assets. Each separate endowment owns units in the investment pool, and the College determines the fair value of a unit on a quarterly basis. Gifts to an endowment fund create new units at the unit value in effect at the time of the gift. Changes in the unit value reflect changes in the fair value of endowment assets. Such changes arise from investment income, gains and losses and from the annual distribution to support each endowment's intended purpose.

The following table shows the distribution and unit value for the investment pool at June 30, 2017 and 2016 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2017	2,509,029	$786.73	$33.12
June 30, 2016	2,493,169	$719.65	$30.49

(dollars in thousands)

4. Property and Equipment

Property and equipment at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Land	$5,757	$5,757
Buildings and improvements	430,314	405,722
Construction in progress	31,568	7,380
Equipment	14,395	20,438
Works of art, historical treasures and similar assets	4,671	4,671
	486,705	443,968
Accumulated depreciation	(147,561)	(144,090)
	$339,144	$299,878

Interest payments totaling $1,492 and $802 were capitalized in 2017 and 2016, respectively.

5. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2017 and 2016 consisted of the present value of future payments due to or on behalf of employees and former employees under retirement and postretirement programs, donors under annuity and life income programs, conditional asset retirement obligations and conditional gifts.

	2017	2016
Conditional gift liability	$10,000	$24,759
Donors	15,010	16,282
Postretirement health benefit	16,755	16,730
Employees and former employees	5,654	5,121
Conditional asset retirement obligation	1,079	1,061
	$48,498	$63,953

The College currently provides a postretirement health benefit in the form of a monthly stipend for the purchase of medical premiums to all employees who meet certain eligibility requirements.

(dollars in thousands)

The components of the postretirement health benefit as of June 30, 2017 and 2016 are as follows:

	2017	2016
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	$ 9,540	$ 7,261
Actives fully eligible to retire	4,877	4,405
Retirees	2,313	2,392
Total	16,730	14,058
Service cost	750	592
Interest cost	581	601
Actuarial (gain) / loss	(1,059)	1,711
Benefits paid	(248)	(232)
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	9,079	9,540
Actives fully eligible to retire	4,811	4,877
Retirees	2,865	2,313
Total	$ 16,755	$ 16,730

	2017	2016
Change in plan assets		
Employer contribution	$ 248	$ 232
Benefits paid	(248)	(232)
Fair value of plan assets at end of year	$ -	$ -
	-	-
Funded status		
Postretirement benefit obligation at end of year	$ 16,755	$ 16,730
Fair value of plan assets at end of year	-	-
Funded status end of year	16,755	16,730
Current liability	396	404
Non-current liability	16,359	16,326
Total	$ 16,755	$ 16,730

(dollars in thousands)

	2017	2016
Components of the net periodic postretirement benefit cost		
Service cost	$ 750	$ 592
Interest cost	581	601
Amortization of actuarial (gain) / loss	141	34
Total	$ 1,472	$ 1,227
OPEB changes other than net periodic postretirement benefit cost		
New actuarial (gain) / loss	$ (1,059)	$ 1,711
Amortization of unrecognized amounts	(141)	(34)
Total	$ (1,200)	$ 1,677
Unrecognized amounts and amortization amounts in the following year:		
Net actuarial (gain) / loss	1,671	2,872
Total	$ 1,671	$ 2,872
Amortization amounts in following year (estimate)		
Net actuarial (gain) / loss	-	117
Total	$ -	$ 117

Assumptions and effects	2017	2016
Medical trend rate next year	6.50%	7.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2022	2020
Discount rate used to value end of year accumulated postretirement benefit obligation	3.75%	3.46%
Discount rate used to value net periodic postretirement benefit cost	3.46%	4.33%
Effect of a 1% increase in health care cost trend rate on:		
Interest cost plus service cost	$ 302	$ 256
Accumulated postretirement benefit obligation	$ 3,014	$ 3,191
Effect of a 1% decrease in health care cost trend rate on:		
Interest cost plus service cost	$ (234)	$ (201)
Accumulated postretirement benefit obligation	$ (2,417)	$ (2,537)
Measurement date	6/30/2017	6/30/2016

(dollars in thousands)

Year Beginning July 1st	Estimated Future Benefit Payment
2017	396
2018	447
2019	499
2020	542
2021	581
2022 - 2026	3,638

6. Bonds and Letters of Credit

Balances of bonds and notes payable outstanding at June 30, 2017 and 2016 were:

	Effective Interest Rate	Maturity Dates	2017 Principal	2016 Principal
Swarthmore Borough Authority				
2006A Revenue Bonds	4.25%	-	-	74,305
2011 Revenue Bonds	2.27%	9/15/2018	26,665	26,665
2011B Revenue Bonds	2.40%	2017-2021	12,945	13,250
2011C Revenue Bonds	2.85%	2017-2021	32,825	36,045
2013 Revenue Bonds	3.86%	2017-2043	41,650	43,625
2015 Revenue Bonds	3.65%	2017-2045	54,070	54,940
2016A Revenue Bonds	1.81%	2017-2030	59,975	-
2016B Revenue Bonds	2.95%	2017-2046	21,375	-
			249,505	248,830
Unamortized Bond Premium			26,504	13,612
Less: Deferred financing costs			(1,283)	(1,312)
Total Bonds payable			$274,726	$261,130

The College bond ratings by Moody's and Standard & Poor's were Aaa/AAA for the years ended June 30, 2017 and 2016. Deferred financing costs represent bond issuance costs that are amortized over the period to bond maturity. Amortization of bond premiums is based on an effective-interest method.

On July 19, 2016, the College issued $59,975 aggregate principal amount of 2016 Revenue Refunding Bonds, Series A (2016A Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to advance refund the 2006A Revenue Bonds, par value of $74,305, which were scheduled to mature on September 15, 2030, and to fund the costs of issuing the 2016A Bonds.

On August 4, 2016, the College issued $21,375 aggregate principal amount of 2016 Revenue Bonds, Series B (2016B Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used fund various tax-exempt capital projects, and to fund the costs of issuing the 2016B Bonds.

On July 14, 2015, the College issued $54,940 aggregate principal amount of 2015 Revenue Bonds (2015 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to fund various tax-exempt capital projects and to fund the costs of issuing the 2015 Bonds.

(dollars in thousands)

On July 31, 2013, the College issued $47,340 aggregate principal amount of 2013 Revenue Bonds (2013 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to refund the 2008 Revenue Bonds, par value of $25,360, which were scheduled to mature on September 15, 2013, to refund the 2009 Revenue Bonds, par value of $8,525, which were scheduled to mature on September 15, 2013 and to fund various tax-exempt capital projects and to fund the costs of issuing the 2013 Bonds.

On December 21, 2011, the College issued $14,380 aggregate principal amount of 2011B Revenue Bonds (2011B Revenue Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used for various tax-exempt capital projects and to fund the costs of issuing the 2011B Bonds.

On December 21, 2011, the College issued $46,280 aggregate principal amount of taxable 2011C Revenue Bonds (2011C Revenue Bonds) through the Swarthmore Borough Authority. The proceeds were used for general operations, to advance refund a portion of the 2002 Revenue Bonds, par value of $19,665 and to fund the costs of issuing the 2011C Bonds.

On June 29, 2011, the College issued $26,665 aggregate principal amount of 2011 Revenue Bonds (2011 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to refund the 2001 Revenue Bonds, par value of $29,320, which were scheduled to mature on September 15, 2031 and to fund the costs of issuing the 2011 Bonds.

On August 21, 2014, the College took out a letter of credit in the amount of $2.4 million as required by the Pennsylvania Department of Public Transportation related to a road construction project. On October 12, 2016, the College took out a second letter of credit in the amount of $0.2 million as required by the Pennsylvania Department of Public Transportation related to a parking lot construction project.

Debt service payments for the next five fiscal years on all borrowings are as follows:

	Principal	Interest	Total
2017-2018	10,065	10,795	20,860
2018-2019	37,095	9,837	46,932
2019-2020	9,690	8,854	18,544
2020-2021	10,070	8,437	18,507
2021-2022	39,305	7,445	46,750

Interest paid on bonds and notes payable was $11,228 and $10,049 for the years ended June 30, 2017 and 2016, respectively.

7. Retirement Benefits

Retirement benefits for all eligible employees of the College are individually funded and vested under a defined contribution Sec. 403(b) retirement plan with Teachers Insurance and Annuity Association of America (TIAA), or Vanguard Group of Investment Companies. Under this arrangement, the College makes monthly contributions as defined in the Plan to the accounts of all employees. The College's contributions under this Plan are included in operating expenses and were $5,945 in 2017 and $5,615 in 2016.

The College has a Sec. 457 non-qualified deferred compensation plan for senior management employees. Participants elect to defer compensation, which is invested with the Teachers Insurance and Annuity Association of America (TIAA) or the Vanguard Group of Investment Companies and is considered College property until the employee withdraws the funds due to emergency, termination or retirement. The participants' contributions are subject to the general creditors of the College, so the invested asset is offset by a corresponding liability in the amounts of $957 and $843 at June 30, 2017 and 2016 respectively. The College does not record transaction activity as revenue or expense. The investments are reported at fair value.

(dollars in thousands)

8. Net assets

Net assets at June 30, 2017 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment	$ -	$897,014	$202,811	$1,099,825
Term Endowment		71,532		71,532
Quasi Endowment	$784,175			784,175
Annuity and life income	9,447	16,529	2,285	28,261
Student loans	1,405			1,405
Property and equipment				
Unexpended		(441)		(441)
Net investment in property and Equipment	101,035			101,035
Other purposes	20,596	14,310	12,909	47,815
	$916,658	$998,944	$218,005	$2,133,607

Net assets at June 30, 2016 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment	$ -	$796,673	$193,647	$990,320
Term Endowment		98,255		98,255
Quasi Endowment	$658,387			658,387
Annuity and life income	8,174	13,838	2,218	24,230
Student loans	1,408			1,408
Property and equipment				
Unexpended		(423)		(423)
Net investment in property and Equipment	95,855			95,855
Other purposes	18,908	30,907	13,814	63,629
	$782,732	$939,250	$209,679	$1,931,661

Certain amounts have been transferred out of unrestricted net assets and temporarily restricted net assets into permanently restricted net assets as a result of donor restrictions on matching gifts, unspent investment return added to principal, and clarifications of donors’ restrictions. For the year ended June 30, 2017, a temporarily restricted gift was transferred to quasi endowment in the amount of $38 million when the conditions of the gift had been fulfilled. This transfer among net asset classes appears in non-operating activities.

As of June 30, 2017 there were no donor-related endowment funds for which the fair value of assets is less than the level required by donor stipulations.

(dollars in thousands)

Changes to the reported amount of the College's true endowment funds and associated appreciation as of June 30 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment total, June 30, 2015	$ 673,335	$ 987,283	$ 185,181	$ 1,845,799
Contributions	3,314	2,000	4,516	9,830
Transfers	(11,488)	3,634	3,949	(3,905)
Investment return	68,722	(95,296)	1	(26,573)
Investment management fees	(6,779)			(6,779)
Endowment spending distribution	(68,718)	(2,692)		(71,410)
Endowment total, June 30, 2016	$ 658,386	$ 894,929	$ 193,647	$ 1,746,962
Contributions	990		7,885	8,875
Transfers	46,119	(20,970)	1,278	26,427
Investment return	159,585	98,124	1	257,710
Investment management fees	(6,637)			(6,637)
Endowment spending distribution	(74,269)	(3,536)		(77,805)
Endowment total, June 30, 2017	$ 784,174	$ 968,547	$ 202,811	$ 1,955,532

9. Expenses by Natural Classification

Expenses for the years ended June 30, 2017 and 2016 were incurred for the following:

	2017	2016
Compensation	$91,482	$86,514
Amortization	241	47
Life income payments and other adjustments	1,715	1,517
Auxiliaries, cost of sales	7,704	3,742
Equipment	4,137	3,252
Off-campus study expenses	3,827	3,082
Insurance	1,240	1,101
Interest	7,010	9,261
Library materials	2,312	2,121
Services, supplies and other	22,170	21,632
Real estate taxes	1,721	1,192
Travel	4,147	3,939
Utilities	2,019	2,053
Depreciation	11,607	8,633
	$161,332	$148,086

10. Income Tax

The College has been granted tax-exempt status as a non-profit organization under Section 501(c) (3) of the Internal Revenue Code, and accordingly, files federal tax Form 990 (Return of Organization Exempt from Income Tax) annually. The College also files federal tax Form 990-T (Exempt Organizations Business Income Tax Return).

Marjay Productions, Inc. is a for-profit corporation subject to federal income taxes under the Internal Revenue Code. Through June 30, 2017, this corporation has no significant outstanding tax obligations.

Parrish LLC is a for-profit corporation subject to federal income taxes under the Internal Revenue Code. Through June 30, 2017, this wholly-owned, sole member Pennsylvania Limited Liability Corporation has not generated any taxable income.

The College is required to assess uncertain tax positions. No adjustments to the financial statements have resulted from uncertain tax positions. The College continually monitors and evaluates its activities for unrelated business income activity.

11. Commitments and Contingencies

In the ordinary course of business, the College occasionally becomes involved in legal proceedings. While any legal proceeding or litigation has an element of uncertainty, management believes that the outcome of all current pending or threatened actions will not have a material adverse effect on the business or financial condition of the College.

As of June 30, 2017 and 2016, the College had outstanding commitments for construction contracts of $43,833 and $43,310, respectively.