Swarthmore College
Consolidated Financial Statements
June 30, 2018 and 2017

SWARTHMORE COLLEGE

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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, 2018 and 2017, 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 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 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, 2018 and 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.

PricewaterhouseCoopers LLP

September 24, 2018

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SWARTHMORE COLLEGE

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2018 and 2017
(in thousands)

ASSETS	2018	2017
Cash and cash equivalents	$ 34,490	$ 28,432
Accounts receivable, net	1,563	1,681
Prepaid expenses and inventories	2,189	2,436
Short term investments	15,288	15,051
Contributions receivable	18,184	18,309
Student loans receivable, net	333	474
Employee mortgages receivable	11,345	11,697
Assets restricted to investment in property and equipment	1,868	47,181
Property and equipment, net	378,263	339,144
Investments, at fair value		
Endowment	2,115,768	1,955,532
Life income and annuity	41,003	41,761
Other	22,929	20,578
Total assets	**$ 2,643,223**	**$ 2,482,276**
LIABILITIES		
Accrued compensation	$ 6,611	$ 9,103
Payables and other accruals	17,359	14,693
Student deposits	1,068	1,473
Deferred payments and other liabilities	36,504	48,498
Refundable government loan funds	105	176
Bonds payable, net	261,681	274,726
Total liabilities	**323,328**	**348,669**
NET ASSETS		
Unrestricted	$ 1,002,568	$ 916,658
Temporarily restricted	1,093,198	998,944
Permanently restricted	224,129	218,005
Total net assets	**2,319,895**	**2,133,607**
Total liabilities and net assets	**$ 2,643,223**	**$ 2,482,276**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2018
(in thousands)

		Restricted		Total
	Unrestricted	**Temporarily**	**Permanently**	**2018**
Operating revenues:				
Student tuition and fees	$ 83,217	$ -	$ -	$ 83,217
Room and board	22,155			22,155
Less student aid	(42,202)			(42,202)
Net student tuition and fees	63,170	-	-	63,170
Revenues from investments				
Endowment spending distribution	78,503	3,390		81,893
Other	1,299			1,299
Private gifts and grants	12,158	4,190		16,348
Government grants	2,096			2,096
Auxiliary activities - other	10,166	437		10,603
Transfers among net asset classes	1,561	(1,561)		-
Net assets released from restrictions	4,996	(4,996)		-
Total operating revenue	**173,949**	**1,460**	**-**	**175,409**
Operating expenses:				
Instruction	56,691			56,691
Academic support	27,197			27,197
Student services	16,513			16,513
Institutional support	28,536			28,536
Auxiliary activities	34,024			34,024
Research and public service	6,117			6,117
Total operating expenses	**169,078**	**-**	**-**	**169,078**
Increase in net assets from operating activities	**4,871**	**1,460**	**-**	**6,331**
Nonoperating activities:				
Net realized and unrealized gain (loss) on investments, net of endowment spending	57,470	99,859	-	157,329
Gifts and grants	10,474	3,345	4,835	18,654
Change in present value of life income funds	-	10		10
Maturities of annuity and life income funds	812	(1,304)	492	-
Change in other post retirement benefits	2,287			2,287
Other	901	776	-	1,677
Transfers among net asset classes	(877)	80	797	-
Net assets released from restrictions	9,972	(9,972)	-	-
Increase in net assets from nonoperating activities	**81,039**	**92,794**	**6,124**	**179,957**
Net increase in net assets for the year	**85,910**	**94,254**	**6,124**	**186,288**
Net Assets, June 30, 2017	**916,658**	**998,944**	**218,005**	**2,133,607**
Net Assets, June 30, 2018	**$ 1,002,568**	**$ 1,093,198**	**$ 224,129**	**$ 2,319,895**

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

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 186,288	$ 201,946
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	12,501	11,607
Asset impairment	584	2,141
Gain on extinguishment of debt	-	(1,595)
Amortization of bond premium	(2,981)	(2,631)
Donor restricted gifts	(9,615)	(5,776)
Receipt of contributed securities	(4,533)	(5,623)
Proceeds of contributed securities	1,121	1,030
Net unrealized and realized loss (gains) on investments	(239,749)	(256,549)
Gain on sale of property	(191)	(84)
Change in student loan reserve	3	(15)
Return of federal loan funds	(71)	(173)
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	490	5,212
Change in deferred payments and other liabilities	(12,026)	(15,455)
Change in student deposits, payables and accruals	(7,299)	(1,367)
Net cash used by operating activities	**(75,478)**	**(67,332)**
Cash flows from investing activities		
Purchase of property and equipment	(45,180)	(47,738)
Proceeds from sale of property	235	518
Proceeds from sale of investments	895,561	943,178
Purchase of investments	(817,845)	(883,330)
Student loans and employee mortgages advanced	(868)	(1,079)
Payments on students loans and employee mortgages	1,358	1,501
Net cash provided by investing activities	**33,261**	**13,050**
Cash flows from financing activities		
Donor restricted gifts	9,615	5,776
Proceeds from contributed securities designated for purchase of property and equipment and long-term investment	3,412	4,551
Change in assets restricted to investment in property and equipment	45,313	11,307
Proceeds from bonds and notes payable	-	98,944
Advance refunding of bonds	-	(73,355)
Payments on bonds and notes payable	(10,065)	(7,320)
Net cash provided by financing activities	**48,275**	**39,903**
Change in cash and cash equivalents	**6,058**	**(14,379)**
Cash and cash equivalents, beginning of year	28,432	42,811
Cash and cash equivalents, end of year	**$ 34,490**	**$ 28,432**
Cash paid for interest, net of amounts capitalized	$ 9,679	$ 9,736
Non-cash capital expenditures in accounts payable	7,068	6,156

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting and Reporting Policies

Reporting Entity

Swarthmore College (the College) is a private, not-for-profit college of liberal arts and engineering located in Swarthmore, Pennsylvania. The College was incorporated in 1864 and founded by the Society of Friends. A Board of Managers governs the College. The College information presented in the consolidated financial statements comprises all the accounts of the College, including its institutes, centers and programs.

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 release 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 and cash equivalents that are held for investment purposes are classified as investments (see Note 3).

Short Term Investments
Short term investments are certificates of deposits with an FDIC insured banking institution that have a maturity date of greater than three months from June 30, 2018 and 2017.

Reclassifications
Certain amounts in the 2017 financial disclosures have been reclassified to conform to the 2018 presentation.

New Accounting Pronouncements
In June 2018, the FASB issued an amendment to the *Topic 958 – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This standard provides specific guidance on accounting for contributions in order to evaluate whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and whether a contribution is conditional. This standard will be applied for fiscal years beginning after June 15, 2018. The College will adopt this standard for the Fiscal Year 2019 and does not expect this standard will have a material impact on the private gift and grants recognized in the Consolidated Statement of Activities.

In August 2018, the FASB issued an amendment to the Topic 715-20 Changes to the Disclosure Requirements for Defined Benefit Plans. This accounting standard update changes the disclosure requirements for defined benefit and other postretirement plans. This standard is for fiscal years beginning after December 15, 2021. The College will adopt this standard for the Fiscal Year 2022 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

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. This standard is for fiscal years beginning after December 15, 2017. The College is adopting this standard for the Fiscal Year 2019 and we expect adoption of this standard will not have a material impact to our Consolidated Statement of Financial Position, Statements of Activities or Cash Flows.

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 we expect adoption of this standard will not result in a material increase in lease-related assets and liabilities on our Consolidated Statement of Financial Position, Statements of Activities or Cash Flows.

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 standard to its consolidated financial statements.

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.

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 as an asset class and the change in useful life for buildings reclassified into building improvements was 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 $584 and $2,141 for the years ended June 30, 2018 and 2017.

Assets restricted to investment in property and equipment
Assets restricted to investment in property and equipment consist primarily of proceeds of tax-exempt bonds issued for the benefit of the College and limited by terms of the indentures to use for qualified capital projects. These assets consist of cash and cash equivalents and short-term investments, recorded at cost, which approximates fair value. Contributions restricted for the acquisition of property and equipment are also reported as assets restricted to investment in property and equipment until the contribution is utilized for their intended purpose.

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 stipulated restrictions are 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. Donated assets are recorded at fair value at the date of donation.

Contributions receivable are unconditional promises, recorded at present value net of any allowance for uncollectible contributions. The present value of pledges are determined using the applicable market rate in the period contributions are recognized, which ranges from 0.95% to 2.17%.

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 $2,938 and $2,809 as of June 30, 2018 and 2017, respectively.

College Housing Programs
For employees who meet certain eligibility requirements, the College has rental, mortgage and financing assistance programs. The goal of the programs is to attract and retain excellent faculty and staff. Beginning on January 1, 2018, the College's Mortgage Loan program was replaced with a forgivable subordinated loan program Home Purchase Assistance Program. The College will continue to service the former programs existing College-issued mortgages. These loans and mortgages are collateralized by deeds of trust on properties in the Philadelphia region. Management evaluates current economic conditions and collection history to determine if an allowance for is necessary. Currently, there are no associated allowances for the receivables held under either program.

The former College Mortgage Loan program provided 20, 25, 30 or 40 year monthly amortizing first mortgages for homes within a specified distance to campus for faculty, instructional staff and other staff members who meet certain eligibility requirements. Mortgages are to be paid off 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.

The College Home Purchase Assistance program is a 10 year forgivable, subordinate loan of up to 10% of the appraised value (subject to a cap) for homes that are considered a primary residence within a specified distance to campus for faculty, instructional staff and other staff members who meet certain eligibility requirements. Subordinate loans are to be paid off in full within 360 days of the termination of employment for any reason (death, retirement or severance). There is no interest charged on the loan.

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 in the Borough of Swarthmore and surrounding campus communities.

Subsequent Events
The College evaluated the period from June 30, 2018, the date of the financial statements, through September 24, 2018, the date of the issuance of the financial statements. On July 10, 2018 the College issued $93,000 aggregate principal of the 2018 Revenue Bonds (2018 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds will fund various tax exempt capital projects and to fund the costs for issuing the 2018 Bonds. The College had no other reportable subsequent events between June 30, 2018 and September 24, 2018.

(dollars in thousands)

2. Contributions Receivable

Contributions receivable at June 30, 2018 and 2017 were as follows:

Due in:	2018	2017
Less than one year	$8,379	$10,638
One to five years	9,498	7,026
More than five years	1,289	1,788
	19,166	19,452
Unamortized discount	(651)	(550)
Allowance for doubtful contributions	(331)	(593)
	$18,184	$18,309

3. Investments

The College records its investments at fair value in accordance with generally accepted accounting principles. The fair 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 certain investments 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, 2018 and 2017.

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, 2018 and 2017. 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 similar 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, 2018 and 2017 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, 2018 and 2017 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 2018 and 2017, the endowment distribution exceeded its net yield (interest and dividends less fees) and therefore net realized gains in the amount $82,378 and $85,324, 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, $12,760 and $12,789 of net realized gains were released from restriction and included in unrestricted revenues in fiscal years 2018 and 2017, 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, 2018, management estimates that it could have liquidated within 30 days approximately $859 million (unaudited) to meet short-term needs and provide investment flexibility.

(dollars in thousands)

A summary of investment activity for fiscal years 2018 and 2017 is as follows:

	Endowment funds	Annuity and Life Income funds	Other	2018 Total	2017 Total
Investments, beginning of the year	$ 1,955,532	$ 41,761	$ 20,578	$ 2,017,871	$ 1,836,178
Contributions	5,422	600		6,022	9,752
Maturities of annuity and life income funds		(2,622)		(2,622)	(2,823)
Other		861	32	893	(44)
Transfers in	2,402		1,415	3,817	36,081
Transfers out	(3,929)			(3,929)	(39,395)
	3,895	(1,161)	1,447	4,181	3,571
Investment return	244,813	2,087	904	247,804	264,116
Investment management fees	(6,579)			(6,579)	(6,637)
	238,234	2,087	904	241,225	257,479
Payments to annuity and life income beneficiaries		(1,684)		(1,684)	(1,552)
Endowment spending distribution					
Unrestricted	(78,503)			(78,503)	(74,269)
Temporarily Restricted	(3,390)			(3,390)	(3,536)
	(81,893)	(1,684)	-	(83,577)	(79,357)
Investments, end of year	$ 2,115,768	$ 41,003	$ 22,929	$ 2,179,700	$ 2,017,871

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 seven 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 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, 2018 were as follows:

	Investments Measured at NAV	Level I	Level II	Level III	Total
Endowment					
Cash and Cash Equivalents	$ -	$ 170,036	$ -	$ -	$ 170,036
Fixed Income	41,796	84,544			126,340
Public Equity	317,460	270,931	312,676		901,067
Real Assets	206,102	25,182	24,222		255,506
Private Equity	385,741				385,741
Opportunistic Credit	44,033				44,033
Marketable Alternatives	233,045				233,045
Total Endowment	$ 1,228,177	$ 550,693	$ 336,898	$ -	$ 2,115,768
Life income		41,003			41,003
Other		20,073	358	2,498	22,929
Total Investments	$ 1,228,177	$ 611,769	$ 337,256	$ 2,498	$ 2,179,700

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, 2018 is as follows:

	Fair Value June 30, 2017	Investment return	Purchases	Sales	Fair Value June 30, 2018
Other Investments	$ 2,615	11	310	(438)	$ 2,498

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	200,692	$ 375,997		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	$ 442,262	$ 397,316	$ -	$ 1,955,532
Life income		41,761			41,761
Other		17,963		2,615	20,578
Total Investments	$ 1,115,954	$ 501,986	$ 397,316	$ 2,615	$ 2,017,871

(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, 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

For the fiscal years ended June 30, 2018 and 2017 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, 2018 and 2017 were:

	2018	2017
Private equity	$279,964	$267,926
Real Assets	171,316	153,892
Opportunistic Credit	57,999	32,806
Total unfunded commitments	$509,279	$454,624

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 endowment distribution for the year and unit value for the investment pool at June 30, 2018 and 2017 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2018	2,516,091	$849.01	$33.50
June 30, 2017	2,509,029	$786.73	$33.12

(dollars in thousands)

4. Property and Equipment

Property and equipment at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Land	$5,757	$5,757
Buildings and improvements	469,882	430,314
Construction in progress	43,244	31,568
Equipment	15,221	14,395
Works of art, historical treasures and similar assets	4,680	4,671
	538,784	486,705
Accumulated depreciation	(160,521)	(147,561)
	$378,263	$339,144

Interest payments totaling $1,116 and $1,492 were capitalized in 2018 and 2017, respectively.

5. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2018 and 2017 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.

	2018	2017
Conditional gift liability	$ -	$10,000
Charitable gift annuity liabilities	8,051	8,420
Life income and unitrusts	6,951	6,590
Postretirement health benefit	14,468	16,755
Employees and former employees	5,945	5,654
Conditional asset retirement obligation	1,089	1,079
	$36,504	$48,498

The College currently provides a postretirement health benefit in the form of a monthly stipend for the payment 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, 2018 and 2017 are as follows:

	2018	2017
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	$ 9,079	$ 9,540
Actives fully eligible to retire	4,811	4,877
Retirees	2,864	2,313
Total	16,755	16,730
Service cost	715	750
Interest cost	619	581
Actuarial (gain) / loss	(3,358)	(1,059)
Benefits paid	(262)	(248)
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	7,964	9,079
Actives fully eligible to retire	4,127	4,811
Retirees	2,377	2,865
Total	$ 14,468	$ 16,755

	2018	2017
Change in plan assets		
Employer contribution	$ 262	$ 248
Benefits paid	(262)	(248)
Fair value of plan assets at end of year	$ -	$ -
	-	-
Funded status		
Postretirement benefit obligation at end of year	$ 14,468	$ 16,755
Fair value of plan assets at end of year	-	-
Funded status end of year	14,468	16,755
Current liability	534	396
Non-current liability	13,934	16,359
Total	$ 14,468	$ 16,755

(dollars in thousands)

	2018	2017
Components of the net periodic postretirement benefit cost		
Service cost	$ 715	$ 750
Interest cost	619	581
Amortization of actuarial (gain) / loss	40	141
Total	$ 1,374	$ 1,472
OPEB changes other than net periodic postretirement benefit cost		
New actuarial (gain) / loss	$ (3,358)	$ (1,059)
Amortization of unrecognized amounts	(40)	(141)
Total	$ (3,398)	$ (1,200)
Unrecognized amounts in the following year:		
Net actuarial (gain) / loss	(1,727)	1,671
Total	$ (1,727)	$ 1,671
Amortization amounts in following year (estimate)		
Net actuarial (gain) / loss	$ (27)	-
Total	$ (27)	$ -

Assumptions and effects	2018	2017
Medical trend rate next year	6.0%	6.5%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2022	2022
Discount rate used to value end of year accumulated postretirement benefit obligation	4.07%	3.75%
Discount rate used to value net periodic postretirement benefit cost	3.75%	3.46%
Effect of a 1% increase in health care cost trend rate on:		
Interest cost plus service cost	$ 278	$ 302
Accumulated postretirement benefit obligation	$ 2,459	$ 3,014
Effect of a 1% decrease in health care cost trend rate on:		
Interest cost plus service cost	$ (217)	$ (234)
Accumulated postretirement benefit obligation	$ (2,036)	$ (2,417)
Measurement date	6/30/2018	6/30/2017

(dollars in thousands)

Year Beginning July 1st	Estimated Future Benefit Payment
2018	534
2019	585
2020	637
2021	675
2022	737
2023 - 2027	4,404

6. Bonds and Letters of Credit

Balances of bonds and notes payable outstanding at June 30, 2018 and 2017 were:

	Effective Interest Rate	Maturity Dates	2018 Principal	2017 Principal
Swarthmore Borough Authority				
2011 Revenue Bonds	2.27%	9/15/2018	26,665	26,665
2011B Revenue Bonds	2.40%	2018-2021	12,630	12,945
2011C Revenue Bonds	2.85%	2018-2021	29,545	32,825
2013 Revenue Bonds	3.86%	2018-2043	39,585	41,650
2015 Revenue Bonds	3.65%	2018-2045	53,165	54,070
2016A Revenue Bonds	1.81%	2018-2030	56,810	59,975
2016B Revenue Bonds	2.95%	2018-2046	21,040	21,375
			239,440	249,505
Unamortized Bond Premium			23,342	26,504
Less: Deferred financing costs			(1,101)	(1,283)
Total Bonds payable			$261,681	$274,726

The College bond ratings by Moody's and Standard & Poor's were Aaa/AAA for the years ended June 30, 2018 and 2017. 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 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 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 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.

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.

(dollars in thousands)

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 March 15, 2018, the letter of credit was amended to $0.5 million, expiring on December 27, 2019.

On October 12, 2016, the College took out a 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. On April 27, 2018, the letter of credit was amended to $42 thousand, expiring on December 16, 2019.

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

	Principal	Interest	Total
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
2022-2023	6,690	6,505	13,195

Interest paid on bonds and notes payable was $10,795 and $11,228 for the years ended June 30, 2018 and 2017, 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 $6,289 in 2018 and $5,945 in 2017.

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 $1,043 and $957 at June 30, 2018 and 2017 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, 2018 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment	$ -	$990,003	$209,422	$1,199,425
Term Endowment		76,407		76,407
Quasi Endowment	$839,936			839,936
Annuity and life income	17,272	7,815	2,437	27,524
Student loans	1,299			1,299
Property and equipment				
Unexpended		312		312
Net investment in property and Equipment	121,159			121,159
General purposes	22,902	18,661	12,270	53,833
	$1,002,568	$1,093,198	$224,129	$2,319,895

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
General purposes	20,596	14,310	12,909	47,815
	$916,658	$998,944	$218,005	$2,133,607

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, 2018 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, 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
Contributions	354		5,069	5,423
Transfers	(5,470)	2,400	1,542	(1,528)
Investment return	145,960	98,853		244,813
Investment management fees	(6,579)			(6,579)
Endowment spending distribution	(78,503)	(3,390)	-	(81,893)
Endowment total, June 30, 2018	$ 839,936	$ 1,066,410	$ 209,422	$ 2,115,768

9. Expenses by Natural Classification

Expenses for the years ended June 30, 2018 and 2017 were incurred for the following:

	2018	2017
Compensation	$96,608	$91,482
Amortization	284	241
Life income payments and other adjustments	1,770	1,715
Auxiliaries, cost of sales	8,083	7,704
Equipment	4,524	4,137
Off-campus study expenses	3,572	3,827
Insurance	1,048	1,240
Interest	6,439	7,010
Library materials	2,301	2,312
Services, supplies and other	23,602	22,170
Real estate taxes	1,339	1,721
Travel	4,605	4,147
Utilities	2,402	2,019
Depreciation	12,501	11,607
	$169,078	$161,332

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).

The Tax Cuts and Jobs Act (the “Act”) was enacted on December 22, 2017. The Act impacts the College in several ways, including new excise taxes on net investment income, increases to unrelated business taxable income (UBTI), changes to the net operating loss rules, repeal of the alternative minimum tax, and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%. The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the College with calculating income and excise tax liability. The College continues to evaluate the impact of tax reform on the organization.

Marjay Productions, Inc. is a for-profit corporation subject to federal income taxes under the Internal Revenue Code. Through June 30, 2018, 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, 2018, this wholly-owned, sole member Pennsylvania Limited Liability Corporation has not generated any taxable income.

In accordance with the guidance on accounting for uncertainty in income taxes, management regularly evaluates its tax positions and does not believe the College has any uncertain tax positions that require disclosure or adjustment in the financial statements. 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, 2018 and 2017, the College had outstanding commitments for construction contracts and purchase orders of $80,239 and $43,833, respectively.