Swarthmore College

Consolidated Financial Statements

June 30, 2016 and 2015

SWARTHMORE COLLEGE
TABLE of CONTENTS
For the Year Ended June 30, 2016

Independent Auditor's Report

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, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the 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.

Auditor's 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, 2016 and 2015, 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

PricewaterhouseCoopers LLP
Philadelphia, PA
September 16, 2016

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1800, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330-3000, F: (267) 330-3300, www.pwc.com/us

SWARTHMORE COLLEGE

STATEMENTS OF FINANCIAL POSITION

as of June 30, 2016 and 2015

(in thousands)

ASSETS	**2016**	**2015**
Cash and cash equivalents	$ 42,811	$ 22,161
Accounts receivable, net	3,224	1,776
Prepaid expenses and inventories	4,468	3,484
Contributions receivable	21,258	25,968
Student loans receivable, net	588	804
Employee mortgages receivable	11,992	12,797
Assets restricted to investment in property and equipment	58,488	8,051
Property and equipment, net	299,878	276,503
Investments, at fair value		
Endowment	1,746,962	1,845,799
Life income and annuity	41,030	43,363
Other	48,186	86,179
Total assets	**$ 2,278,885**	**$ 2,326,885**
LIABILITIES		
Accrued compensation	$ 8,533	$ 7,864
Payables and other accruals	10,353	12,497
Student deposits	1,594	2,415
Deferred payments and other liabilities	63,953	58,982
Refundable government loan funds	349	1,742
Bonds payable	262,442	210,257
Total liabilities	**347,224**	**293,757**
NET ASSETS		
Unrestricted	$ 782,732	$ 795,869
Temporarily restricted	939,250	1,034,686
Permanently restricted	209,679	202,573
Total net assets	**1,931,661**	**2,033,128**
Total liabilities and net assets	**$ 2,278,885**	**$ 2,326,885**

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	463	1,807		2,270
Other additions	6,311	745		7,056
Transfers among net asset classes	678	(678)		-
Net assets released from restrictions	6,911	(6,911)		-
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 activities	**(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

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2015

(in thousands)

		Restricted		Total
	Unrestricted	Temporarily	Permanently	2015
Operating revenues:				
Student tuition and fees	$ 70,790	$ -	$ -	$ 70,790
Room and board	18,359			18,359
Less student aid	(29,999)			(29,999)
Net student tuition and fees	59,150	-	-	59,150
Revenues from investments				
Endowment spending distribution	58,166	2,479		60,645
Other	611			611
Private gifts and grants	7,875	2,230		10,105
Government grants	459	1,744		2,203
Other additions	5,918	846		6,764
Transfers among net asset classes	680	(680)		-
Net assets released from restrictions	6,486	(6,486)		-
Total operating revenue	**139,345**	**133**	**-**	**139,478**
Operating expenses:				
Instruction	50,665			50,665
Academic support	20,821			20,821
Student services	12,432			12,432
Institutional support	26,232			26,232
Auxiliary activities	22,471			22,471
Research and public service	5,342			5,342
Total operating expenses	**137,963**	**-**	**-**	**137,963**
Increase in net assets from operating activities	**1,382**	**133**	**-**	**1,515**
Nonoperating activities:				
Net realized and unrealized gain (loss) on investments, net of endowment spending	9,966	(29,731)	-	(19,765)
Gifts and grants	445	2,036	2,344	4,825
Change in present value of life income funds		277		277
Maturities of annuity and life income funds	282	(476)	194	-
Change in other post retirement benefits	(1,165)			(1,165)
Other	832	2,416	34	3,282
Transfers among net asset classes	3,546	3,953	(7,499)	-
Net assets released from restrictions	4,278	(4,278)		-
Decrease in net assets from nonoperating activities	**18,184**	**(25,803)**	**(4,927)**	**(12,546)**
Net decrease in net assets for the year	**19,566**	**(25,670)**	**(4,927)**	**(11,031)**
Net Assets, June 30, 2014	**776,303**	**1,060,356**	**207,500**	**2,044,159**
Net Assets, June 30, 2015	**$ 795,869**	**$ 1,034,686**	**$ 202,573**	**$ 2,033,128**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2016 and 2015

(in thousands)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (101,467)	$ (11,031)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	8,633	7,884
Asset impairment	2,049	-
Amortization of bond premium	(1,552)	(1,400)
Donor restricted gifts	(10,353)	(5,295)
Receipt of contributed securities	(2,982)	(1,380)
Proceeds of contributed securities	852	688
Net unrealized and realized loss (gains) on investments	45,896	(35,660)
Change in student loan reserve	(10)	(16)
Return of federal loan funds	(1,393)	-
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	2,278	7,408
Change in deferred payments and other liabilities	4,971	383
Change in student deposits, payables and accruals	(5,863)	(1,600)
Net cash used by operating activities	**(58,941)**	**(40,019)**
Cash flows from investing activities		
Purchase of property and equipment	(30,490)	(24,907)
Proceeds from sale of investments	824,320	681,014
Purchase of investments	(731,053)	(633,844)
Student loans and employee mortgages advanced	(554)	(395)
Payments on students loans and employee mortgages	1,585	1,155
Net cash provided/used by investing activities	**63,808**	**23,023**
Cash flows from financing activities		
Donor restricted gifts	10,353	5,295
Proceeds from contributed securities designated for purchase of property and equipment and long-term investment	2,130	678
Change in assets restricted to investment in property and equipment	(50,437)	11,159
Proceeds from bonds and notes payable	59,997	0
Payments on bonds and notes payable	(6,260)	(6,105)
Net cash provided by financing activities	**15,783**	**11,027**
Change in cash and cash equivalents	**20,650**	**(5,969)**
Cash and cash equivalents, beginning of year	22,161	28,130
Cash and cash equivalents, end of year	**$ 42,811**	**$ 22,161**
Interest paid	$ 9,246	$ 8,680
Non-cash capital expenditures in accounts payable	$ 3,567	$ 5,851

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 received as a bequest by 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 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 restricted by donor-implied restrictions. 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.

New Accounting Pronouncements
In January 2016, the FASB issued a standard on Recognition and Measurement of Financial Assets and Liabilities. This standard changes the accounting for equity investments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized costs for non-public entities. The College has early adopted this standard for year ended June 30, 2016. As a result of the adoption, the College eliminated the footnote disclosure of fair value for its bond obligations, which are measured at amortized cost.

Accounting Pronouncements not yet adopted
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 is effective for fiscal years beginning after December 15, 2015. The College will adopt this standard for the Fiscal Year 2017 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

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. This amendment is effective for fiscal years beginning after December 15, 2016 and will be applied retrospectively to all periods presented. The new standard is limited to disclosure and does not affect the recognition or measurement of investments. The College will adopt this standard for the Fiscal Year 2017 and is in process of evaluating the impact of the adoption of the standard to its consolidated financial statements.

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 that transparent disclosure about any internal transfers that are included in the self-defined 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 buildings (60 years), improvements (15 years) and equipment (5 years). Depreciation is funded annually by internally designating funds for plant renewal and replacement. Amounts totaling $12,277 and $10,819 were so designated for the years ended June 30, 2016 and 2015, respectively.

Works of art, historical treasures and similar assets have been 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. During fiscal year 2016 two academic buildings scheduled for demolition due to construction of a new academic building were impaired by $2,049.

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 restrictions are satisfied. Temporarily restricted revenues or net assets are used prior to utilizing unrestricted revenues or net assets. 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 stated at their present values and are 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%.

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 $2,620 and $2,508 as of June 30, 2016 and 2015, 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 is no associated allowance for the receivables held under this program.

(dollars in thousands)

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 the period from June 30, 2016, the date of the financial statements, through September 16, 2016, the date of the issuance of the financial statements for subsequent events.
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 will be used to refund the 2006A Revenue Bonds 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.

The College had no other reportable subsequent events between June 30, 2016 and September 16, 2016.

2. Contributions Receivable

Contributions receivable at June 30, 2016 and 2015 were as follows:

Due in:	2016	2015
Less than one year	$13,859	$18,950
One to five years	6,552	3,974
More than five years	1,741	3,833
	22,152	26,757
Unamortized discount	(489)	(208)
Allowance for doubtful contributions	(405)	(581)
	$21,258	$25,968

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 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, 2016 and 2015.

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, 2016 and 2015. 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, 2016 and 2015 is based on the present value of future payments discounted at rates that vary by participant from 2.0% 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, 2016 and 2015 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 Board of Managers sets the level of distribution of endowment return annually. In fiscal years 2016 and 2015, distribution of endowment income exceeded the net yield (interest and dividends less fees) generated by endowment fund investments and therefore, $66,141 and $55,425 of net realized gains were allocated to the 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) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). 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 define as income 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 and at the direction of the Board of Managers, $13,871 and $14,795 of net realized gains on endowments which has earnings distributed for general purposes were released from restriction and included in unrestricted revenues in fiscal years 2016 and 2015, 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, 2016, management estimates that it could have liquidated within 30 days approximately $722 million (unaudited) to meet short-term needs and provide investment flexibility.

A summary of investment activity for fiscal years 2016 and 2015 is as follows:

(dollars in thousands)

	Endowment and similar funds	Annuity and Life Income funds	Other	2016 Total	2015 Total
Investments, beginning of year	$ 1,845,799	$ 43,363	$ 86,179	$ 1,975,341	$ 1,986,838
Contributions	9,830	1,220		11,050	8,370
Maturities of annuity and life income funds		(2,474)		(2,474)	(1,683)
Other		(991)	185	(806)	(958)
Transfers in	5,200			5,200	22,322
Transfers out	(9,105)		(35,544)	(44,649)	(23,123)
	5,925	(2,245)	(35,359)	(31,679)	4,928
Interest and dividends	16,163	952		17,115	15,331
Unrealized and realized gains and (losses)	(42,736)	(525)	(2,634)	(45,895)	35,660
Investment management fees	(6,779)			(6,779)	(6,207)
	(33,352)	427	(2,634)	(35,559)	44,784
Payments to annuity and life income beneficiaries		(515)		(515)	(564)
Endowment spending distribution					
Unrestricted	(68,718)			(68,718)	(58,166)
Temporarily Restricted	(2,692)			(2,692)	(2,479)
	(71,410)	(515)	-	(71,925)	(61,209)
Investments, end of year	$ 1,746,962	$ 41,030	$ 48,186	$ 1,836,178	$ 1,975,341

The *Fair Value Measurement* accounting standard established a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date. Categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value. Observable inputs reflect market data obtained from sources independent of the reporting entity, and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable:

- Level I- Quoted prices are available in active markets for identical investments as of the reporting date.

- Level II- Pricing inputs, including broker quotes, are generally those other than exchange-quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.

- Level III- Pricing inputs are unobservable for the investment and include situations where there is minimal (if any) market activity for the investment or if inputs used in determination of fair value require significant judgment or estimation.

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 College aims for the distribution from the endowment for operations to grow over time at least as quickly as average annual increases in the College's costs. In furtherance of these objectives, the endowment is invested in a diversified investment portfolio of equity and fixed income securities in order to reduce volatility and achieve targeted risk-adjusted returns over complete market cycles.

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 who 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. Level I assets have immediate liquidity while Level III assets have liquidity provisions similar to those for marketable alternatives, as described below.

- Public Equity includes investment in publicly-traded stocks of domestic and international companies. Level I and Level II assets are able to be liquidated immediately or within 30 days. Level II assets are commingled funds valued at net asset value (NAV). Level III assets have liquidity provisions similar to those for marketable alternatives, as described below.

- Real Assets include investments in real estate and natural resources such as oil and gas and commodities. Level I and Level II assets are able to be liquidated within 30 days. Level II assets are commingled funds valued at net asset value (NAV). Level III assets are invested through limited partnerships which have stated terms of typically 10 to 12 years. The remaining terms of the College's private real estate and natural resource investments range from 1 to 10 years and 3 to 25 years respectively.

- Private Equity includes investments in buyouts, venture capital and distressed companies. These assets are considered to be Level III and are invested through limited partnerships which have stated terms of typically 10 to 12 years. The remaining terms of the College's private equity investments range from 1 to 20 years.

- Marketable Alternatives include investments in equity hedge funds, risk arbitrage and distressed securities. These are typically investments managed by investment companies which are subject to restrictions that limit 1/ the College's ability to redeem/withdraw capital from such investment during a specified period of time subsequent to the initial investments and/or 2/the amount of capital that investors may redeem/withdraw as of a given redemption/withdrawal date. Capital available for redemption/withdrawal may also be subject to redemption/withdrawal charges. Certain investments in illiquid securities may have additional liquidation restrictions. Investments in Marketable Alternatives generally limit redemptions to monthly, quarterly, semi-annually, annually or longer, at fair value and require between 45 and 180 days notice.

A summary of investments, measured in accordance with the Fair Value Measurement standard, at fair value on a recurring basis as of June 30, 2016 is as follows:

(dollars in thousands)

	Quoted Prices In Active Markets Level I	Significant Other Observable Inputs Level II	Significant Unobservable Inputs Level III	Total
Endowment				
Cash and Cash Equivalents	$ 70,924	$ -	$ -	$ 70,924
Fixed Income	66,291		41,929	108,220
Public Equity	109,311	$ 424,022	269,210	802,543
Real Assets	31,411	19,881	172,523	223,815
Private Equity			307,207	307,207
Marketable Alternatives			234,253	234,253
Total Endowment	$ 277,937	$ 443,903	$ 1,025,122	$ 1,746,962
Life income	41,030			41,030
Other	46,344		1,842	48,186
Total Investments	$ 365,311	$ 443,903	$ 1,026,964	$ 1,836,178

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 are as follows:

	Fixed Income	Public Equity	Real Assets	Private Equity	Marketable Alternatives	Other	Total
Fair Value, June 30, 2015	$37,768	$281,375	$158,742	$313,721	$243,189	$1,831	$1,036,626
Realized gains/(losses)			5,767	12,848	6,342	2	24,959
Unrealized gains/(losses)	(839)	(12,165)	(12,522)	(14,345)	(3,278)		(43,149)
Purchases	5,000		52,819	55,627		158	113,604
Sales			(32,283)	(60,644)	(12,000)	(149)	(105,076)
Fair Value, June 30, 2016	$41,929	$269,210	$172,523	$307,207	$234,253	$1,842	$1,026,964

A summary of investments, measured in accordance with the *Fair Value Measurement* standard, as of June 30, 2015 is as follows:

	Quoted Prices In Active Markets Level I	Significant Other Observable Inputs Level II	Significant Unobservable Inputs Level III	Total
Endowment				
Cash and Cash Equivalents	$ 128,098	$ -	$ -	$ 128,098
Fixed Income	74,463		37,768	112,231
Public Equity	238,187	$ 351,572	281,375	871,134
Real Assets	10,404	8,280	158,742	177,426
Private Equity			313,721	313,721
Marketable Alternatives			243,189	243,189
Total Endowment	$ 451,152	$ 359,852	$ 1,034,795	$ 1,845,799
Life income	43,363			43,363
Other	84,348		1,831	86,179
Total Investments	$ 578,863	$ 359,852	$ 1,036,626	$ 1,975,341

(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, 2015 are as follows:

	Fixed Income	Public Equity	Real Assets	Private Equity	Marketable Alternatives	Other	Total
Fair Value, June 30, 2014	$37,475	$241,960	$160,358	$323,167	$229,661	$1,810	$994,431
Realized gains/(losses)			(677)	36,943	5,409	6	41,681
Unrealized gains/(losses)	293	29,415	(2,464)	(13,532)	(11,121)		2,591
Purchases		10,000	36,874	45,696	35,000	162	127,732
Sales			(35,349)	(78,553)	(15,760)	(147)	(129,809)
Fair Value, June 30, 2015	$37,768	$281,375	$158,742	$313,721	$243,189	$1,831	$1,036,626

For the fiscal years ended June 30, 2016 and 2015 the College recorded no transfers between levels within the fair value hierarchy.

The College has made 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, 2016 and 2015 were:

	2016	2015
Private equity	$288,857	$192,536
Real estate	65,885	90,727
Natural resources	75,252	69,638
Total unfunded commitments	$429,994	$352,901

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, 2016 and 2015 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2016	2,493,169	$719.65	$30.49
June 30, 2015	2,475,397	$764.83	$25.67

(dollars in thousands)

4. Property and Equipment

Property and equipment at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Land	$5,757	$5,757
Buildings and improvements	405,722	357,411
Construction in progress	7,380	22,192
Equipment	20,438	20,052
Works of art, historical treasures and similar assets	4,671	4,671
	433,968	410,083
Accumulated depreciation	(144,090)	(133,580)
	$299,878	$276,503

Interest payments totaling $802 and $408 were capitalized in 2016 and 2015, respectively.

5. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2016 and 2015 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.

	2016	2015
Conditional gift liability	$24,759	$24,759
Donors	16,282	14,486
Postretirement health benefit	16,730	14,057
Employees and former employees	5,121	4,608
Conditional asset retirement obligation	1,061	1,072
	$63,953	$58,982

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. The components of the benefit as of June 30, 2016 and 2015 are as follows:

(dollars in thousands)

	2016	2015
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	$ 7,261	$ 7,892
Actives fully eligible to retire	4,405	3,614
Retirees	2,392	1,386
Total	14,058	12,892
Service cost	592	537
Interest cost	601	511
Actuarial (gain) / loss	1,711	334
Benefits paid	(232)	(217)
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	9,540	7,261
Actives fully eligible to retire	4,877	4,404
Retirees	2,313	2,392
Total	$ 16,730	$ 14,057
Change in plan assets		
Employer contribution	$ 232	$ 217
Benefits paid	(232)	(217)
Fair value of plan assets at end of year	$ -	$ -
Funded status		
Postretirement benefit obligation at end of year	$ 16,730	$ 14,057
Fair value of plan assets at end of year	-	-
Funded status end of year	16,730	14,057
Current liability	404	332
Non-current liability	16,326	13,725
Total	$ 16,730	$ 14,057

(dollars in thousands)

	2016	2015
Components of the net periodic postretirement benefit cost		
Service cost	$ 592	$ 537
Interest cost	601	511
Amortization of actuarial (gain) / loss	34	38
Total	$ 1,227	$ 1,086
OPEB changes other than net periodic postretirement benefit cost		
New actuarial (gain) / loss	$ 1,711	$ 333
Amortization of unrecognized amounts	(34)	(38)
Total	$ 1,677	$ 295
Unrecognized amounts and amortization amounts in the following year:		
Net actuarial (gain) / loss	2,872	1,195
Total	$ 2,872	$ 1,195
Amortization amounts in following year (estimate)		
Net actuarial (gain) / loss	117	-
Total	$ 117	$ -

Assumptions and effects:	2016	2015
Medical trend rate next year	7.00%	6.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2020	2019
Discount rate used to value end of year accumulated postretirement benefit obligation	3.46%	4.33%
Discount rate used to value net periodic postretirement benefit cost	4.33%	4.15%
Effect of a 1% increase in health care cost trend rate on:		
Interest cost plus service cost	$ 256	$ 225
Accumulated postretirement benefit obligation	$ 3,191	$ 2,220
Effect of a 1% decrease in health care cost trend rate on:		
Interest cost plus service cost	$ (201)	$ (178)
Accumulated postretirement benefit obligation	$ (2,537)	$ (1,787)
Measurement date	6/30/2016	6/30/2015

(dollars in thousands)

Year Beginning July 1st	Estimated Future Benefit Payment
2016	404
2017	464
2018	520
2019	579
2020	629
2021 - 2025	4,082

6. Bonds and Letters of Credit

Bonds and notes payable at June 30, 2016 and 2015 were:

	2016	2015
	Cost	Cost
Swarthmore Borough Authority		
2006A Revenue Bonds	76,233	77,297
2011 Revenue Bonds	27,860	28,391
2011B Revenue Bonds	14,721	15,273
2011C Revenue Bonds	36,045	39,215
2013 Revenue Bonds	47,842	50,081
2015 Revenue Bonds	59,741	-
Total bonds payable	$262,442	$210,257

The College bond ratings by Moody's and Standard & Poor's were Aaa/AAA for the years ended June 30, 2016 and 2015.

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. The 2015 Bonds have interest rates of 4.0% to 5.0% depending upon the maturity dates, which range from 2016 to 2045 in annual amounts ranging from $870 to $3,215. Interest is payable semi-annually.

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, to fund various tax-exempt capital projects and to fund the costs of issuing the 2013 Bonds. The 2013 Bonds have interest rates of 4.0% to 5.0% depending upon the maturity dates, which range from 2016 to 2043 in annual amounts ranging from $745 to $2,375. Interest is payable semi-annually.

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. The 2011B Bonds have interest rates of 3.0% to 5.0% depending upon the maturity dates, which range from 2016 to 2021 in annual amounts ranging from $305 to $11,595. Interest is payable semi-annually.

(dollars in thousands)

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. The 2011C Bonds have interest rates of 1.78% to 3.10% depending upon the maturity dates, which range from 2016 to 2021 in annual amounts ranging from $3,220 to $21,420. Interest is payable semi-annually.

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. The 2011 Bonds have interest rates of 3.0%, 4.0% and 5.0% (priced to yield 2.18%) and mature on September 15, 2018. Interest is payable semi-annually.

On December 20, 2006, the College issued $76,085 aggregate principal amount of 2006A Revenue Bonds (2006A Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to advance refund $10,375 of the 1998 Revenue Bonds, to advance refund $63,970 of the 2001 Revenue Bonds and to fund the costs of issuing the 2006A Bonds. The 2006A Revenue Bonds have interest rates from 4.0% to 5.0% depending upon the maturity dates, which range from 2015 to 2030 in annual amounts ranging from $450 to $22,915. Interest is payable semi-annually.

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.

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

	Principal	Interest	Total
2015-2016	7,320	10,756	18,076
2016-2017	7,565	10,509	18,074
2017-2018	34,505	9,663	44,168
2018-2019	6,715	8,823	15,538
2019-2020	6,985	8,565	15,550

Interest paid on bonds and notes payable was $10,049 and $8,680 for the years ended June 30, 2016 and 2015, respectively. Amortization of bond premiums is based on an effective-interest method.

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 $5,615 in 2016 and $5,436 in 2015.

During fiscal year 2003 the College initiated 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 $843 and $833 at June 30, 2016 and 2015 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, 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

Net assets at June 30, 2015 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment	$ -	$885,837	$185,181	$1,071,018
Term Endowment		101,445		101,445
Quasi Endowment	$673,336			673,336
Annuity and life income	9,181	19,078	2,327	30,586
Student loans	2,162			2,162
Property and equipment				
Unexpended		(1,890)		(1,890)
Net investment in property and Equipment	87,448			87,448
Other purposes	23,742	30,216	15,065	69,023
	$795,869	$1,034,686	$202,573	$2,033,128

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.

As of June 30, 2016 there were no donor-related endowment funds for which the fair value of assets is less than the level required by donor stipulations.

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

(dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment total, June 30, 2014	$ 681,913	$ 1,013,937	$ 180,819	$ 1,876,669
Contributions	1,933	2,000	4,130	8,063
Transfers	(22,455)	(434)	228	(22,661)
Interest and dividends	14,312		4	14,316
Unrealized and realized gains (losses)	62,005	(25,741)		36,264
Investment management fees	(6,207)			(6,207)
Endowment spending distribution	(58,166)	(2,479)		(60,645)
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)
Interest and dividends	16,162		1	16,163
Unrealized and realized gains (losses)	52,560	(95,296)		(42,736)
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

9. Expenses by Natural Classification

Expenses for the years ended June 30, 2016 and 2015 were incurred for the following:

	2016	2015
Compensation	$86,514	$83,130
Amortization	47	174
Life income payments and other adjustments	1,517	1,599
Auxiliaries, cost of sales	3,742	2,630
Equipment	3,252	2,913
Foreign study program expenses	3,082	3,309
Insurance	1,101	1,022
Interest	9,261	6,981
Library materials	2,121	2,328
Services, supplies and other	21,632	19,093
Real estate taxes	1,192	1,133
Travel	3,939	3,539
Utilities	2,053	2,228
Depreciation	8,633	7,884
	$148,086	$137,963

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, 2016, 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, 2016, 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, 2016 and 2015, the College had outstanding commitments for construction contracts of $43,310 and $24,900, respectively.