



MARTIN, HARPS, SYPHOE & Co.
CERTIFIED PUBLIC ACCOUNTANTS

SPELMAN COLLEGE

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

MARTIN, HARPS, SYPHOE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Board of Trustees
Spelman College:

We have audited the accompanying financial statements of Spelman College, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spelman College as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 25, 2016

Martin, Harps, Syphe & Co.

SPELMAN COLLEGE

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 22,461,440	21,031,644
Student accounts receivable (net of allowance for doubtful accounts of \$2,271,000 in 2016 and \$2,280,000 in 2015)	1,913,614	1,521,055
Grants and other receivables	1,236,658	1,566,833
Contributions receivable, net (note 2)	7,207,750	7,474,943
Student notes receivable (net of allowance for doubtful accounts of \$1,200,000 in 2016 and 2015)	1,471,839	1,483,478
Investments (notes 3 and 10)	346,981,172	362,986,405
Other assets	1,245,122	1,324,172
Property and equipment, net (notes 5 and 6)	164,439,620	168,340,746
Total assets	\$ 546,957,215	565,729,276
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 4,687,642	8,450,912
Accrued compensation and related expenses	6,208,459	4,215,920
Deferred revenue	1,090,161	1,518,885
Bonds and note payable (note 6)	85,743,741	90,729,584
Advances from federal government	1,603,538	1,589,588
Total liabilities	99,333,541	106,504,889
Net assets:		
Unrestricted:		
Undesignated	231,850	201,396
Designated by the board of trustees as follows:		
Quasi-endowment, net (note 4)	58,322,151	62,045,952
Student loans	184,149	179,304
Facilities expansion	5,334,319	22,265,535
Investment in property and equipment	74,350,271	56,095,410
Total unrestricted net assets	138,422,740	140,787,597
Temporarily restricted (notes 4 and 9)	186,485,605	198,622,874
Permanently restricted (notes 4 and 9)	122,715,329	119,813,916
Total net assets	447,623,674	459,224,387
Commitments and contingencies (notes 3, 6, 12, and 13)		
Total liabilities and net assets	\$ 546,957,215	565,729,276

See accompanying notes to financial statements.

SPELMAN COLLEGE

Statement of Activities

Year ended June 30, 2016

(with summarized financial information for the year ended June 30, 2015)

	2016			2015
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	\$ 53,822,412	—	—	53,822,412
Less student aid	(17,343,402)	—	—	(17,343,402)
Tuition and fees, net	36,479,010	—	—	36,479,010
Government grants and contracts	546,422	6,548,542	—	7,094,964
Private gifts and grants	2,685,466	12,509,398	—	15,194,864
Investment income (note 3)	36,446	362	—	36,808
Realized and unrealized gains on investments, net (note 3)	1,837	—	—	1,837
Endowment spending in accordance with College's spending rule (notes 3 and 4)	4,789,952	13,554,628	—	18,344,580
Sales and services of auxiliary enterprises	21,212,157	—	—	21,212,157
Other	1,188,152	—	—	1,188,152
Net assets released from restrictions (note 8)	28,043,718	(28,043,718)	—	—
Total operating revenues	94,983,160	4,569,212	—	99,552,372
Operating expenses (note 11):				
Instruction	28,848,794	—	—	28,848,794
Research	4,435,754	—	—	4,435,754
Public service	267,379	—	—	267,379
Academic support	7,726,859	—	—	7,726,859
Student services	12,475,549	—	—	12,475,549
Institutional support	25,532,987	—	—	25,532,987
Auxiliary enterprises	15,433,864	—	—	15,433,864
Total operating expenses	94,721,186	—	—	94,721,186
Change in net assets from operating activities	261,974	4,569,212	—	4,831,186
Nonoperating activities:				
Contributions	(16,956)	181,870	2,951,117	3,116,031
Investment income (note 3)	421,742	2,218,325	—	2,640,067
Change in present value of split interest agreements	—	(14,327)	—	(14,327)
Realized and unrealized gains on investments, net (note 3)	1,955,950	(4,408,967)	—	(2,453,017)
Endowment spending in accordance with College's spending rule (notes 3 and 4)	(4,789,952)	(13,554,628)	—	(18,344,580)
Net assets released from restriction for construction (note 8)	1,096,970	(1,096,970)	—	—
Net assets released from restriction for expired term annuities	16,956	(16,956)	—	—
Loss on early extinguishment	—	—	—	(3,789,654)
Capital campaign expenditures	(1,381,717)	—	—	(1,381,717)
Other nonoperating (expenses) income	70,176	(14,828)	(49,704)	5,644
Change in net assets from nonoperating activities	(2,626,831)	(16,706,481)	2,901,413	(16,431,899)
Change in net assets	(2,364,857)	(12,137,269)	2,901,413	(4,840,790)
Net assets at beginning of year	140,787,597	198,622,874	119,813,916	459,224,387
Net assets at end of year	\$ 138,422,740	186,485,605	122,715,329	459,224,387

See accompanying notes to financial statements.

SPELMAN COLLEGE

Statement of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees	\$ 51,170,750	—	—	51,170,750
Less student aid	(17,754,268)	—	—	(17,754,268)
Tuition and fees, net	33,416,482	—	—	33,416,482
Government grants and contracts	418,362	6,059,551	—	6,477,913
Private gifts and grants	2,697,522	8,001,887	—	10,699,409
Investment income (note 3)	14,179	661	—	14,840
Realized and unrealized gains on investments, net (note 3)	106,137	—	—	106,137
Endowment spending in accordance with College's spending rule (notes 3 and 4)	4,997,691	13,021,760	—	18,019,451
Sales and services of auxiliary enterprises	20,617,117	—	—	20,617,117
Other	1,066,804	—	—	1,066,804
Net assets released from restrictions (note 8)	27,044,852	(27,044,852)	—	—
Total operating revenue	<u>90,379,146</u>	<u>39,007</u>	<u>—</u>	<u>90,418,153</u>
Operating expense (note 11):				
Instruction	27,574,272	—	—	27,574,272
Research	3,905,222	—	—	3,905,222
Public service	420,729	—	—	420,729
Academic support	7,902,675	—	—	7,902,675
Student services	11,286,462	—	—	11,286,462
Institutional support	22,467,607	—	—	22,467,607
Auxiliary enterprises	14,468,335	—	—	14,468,335
Total operating expenses	<u>88,025,302</u>	<u>—</u>	<u>—</u>	<u>88,025,302</u>
Change in net assets from operating activities	<u>2,353,844</u>	<u>39,007</u>	<u>—</u>	<u>2,392,851</u>
Nonoperating activities:				
Contributions	—	186,570	3,027,282	3,213,852
Investment income (note 3)	583,847	3,105,542	—	3,689,389
Change in present value of split interest agreements	—	(10,079)	—	(10,079)
Realized and unrealized gains on investments, net (note 3)	7,027,611	6,367,644	—	13,395,255
Endowment spending in accordance with College's spending rule (notes 3 and 4)	(4,997,691)	(13,021,760)	—	(18,019,451)
Net assets released from restriction for construction (note 8)	13,493,873	(13,493,873)	—	—
Loss on early extinguishment	(3,789,654)	—	—	(3,789,654)
Capital campaign expenditures	(1,713,158)	—	—	(1,713,158)
Other nonoperating (expenses) income	40	165	(4,000,000)	(3,999,795)
Change in net assets from nonoperating activities	<u>10,604,868</u>	<u>(16,865,791)</u>	<u>(972,718)</u>	<u>(7,233,641)</u>
Change in net assets	<u>12,958,712</u>	<u>(16,826,784)</u>	<u>(972,718)</u>	<u>(4,840,790)</u>
Net assets at beginning of year	<u>127,828,885</u>	<u>215,449,658</u>	<u>120,786,634</u>	<u>464,065,177</u>
Net assets at end of year	<u>\$ 140,787,597</u>	<u>198,622,874</u>	<u>119,813,916</u>	<u>459,224,387</u>

See accompanying notes to financial statements.

SPELMAN COLLEGE

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (11,600,713)	(4,840,790)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,007,156	4,848,277
Amortization of bond issuance costs	97,087	83,737
Amortization of bond premium	(954,320)	(561,592)
Loss on disposal of property and equipment	1,559,818	—
Loss on early extinguishment debt	—	3,789,655
In-kind contribution of property and other	(8,913)	(264,783)
Net realized and unrealized losses (gains) on investments	2,451,180	(13,501,344)
Private gifts and grants restricted for long-term investment	(3,400,180)	(10,785,600)
(Increase) decrease in student accounts receivable	(392,559)	333,013
Decrease (increase) in grants and other receivables	330,175	(369,437)
Decrease in contributions receivable, net	267,193	7,571,748
Decrease in other assets	87,963	255,710
(Increase) decrease in accounts payable and accrued expenses, and accrued compensation and related expenses	(1,770,731)	1,103,676
(Increase) decrease in deferred revenue	(428,724)	281,858
Net cash used in operating activities	(8,755,568)	(12,055,872)
Cash flows from investing activities:		
Purchases and acquisitions of property and equipment	(2,665,848)	(14,560,477)
Proceeds from disposal and retirements of property and equipment	—	6,776
Loans advanced to students, net	11,639	27,801
Proceeds from sales of investments	137,698,512	95,754,926
Purchases of investments	(124,144,459)	(74,203,290)
Net cash provided by investing activities	10,899,844	7,025,736
Cash flows from financing activities:		
Principal repayments on bonds and notes payable	(4,128,610)	(63,691,476)
Repayment of endowed gift	—	(4,000,000)
Principal repayments under capital lease obligations	—	(50,890)
Proceeds from issuance of bonds payable	—	60,338,402
Payments for bond issuance costs	—	(655,536)
Increase in advances from federal government	13,950	17,420
Proceeds from private gifts and grants restricted for long-term investment	3,400,180	10,785,600
Net cash (used in) provided by financing activities	(714,480)	2,743,520
Net increase (decrease) in cash and cash equivalents	1,429,796	(2,286,616)
Cash and cash equivalents at beginning of year	21,031,644	23,318,260
Cash and cash equivalents at end of year	\$ 22,461,440	21,031,644
Supplemental disclosures:		
Cash paid for interest	\$ 3,727,850	2,960,799
In-kind gift – property and other	8,913	264,783

See accompanying notes to financial statements.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) General

Spelman College (the College) is a private, nonprofit institution of higher education located in Atlanta, Georgia. The College provides education and training services for students at the undergraduate level and performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations and governmental agencies.

(b) Basis of Presentation

The financial statements of the College have been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles.

The College's net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, the net assets of the College and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that these be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income and gains earned on the related investments for general or specific purposes.

Revenue from sources other than contributions is reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate net asset category. Contributions of assets other than cash and cash equivalents are initially recorded at their estimated fair value at the date of the gift, as determined by independent appraisal or other valuation methods as deemed appropriate by management. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue and classified in accordance with donor-imposed restrictions, if any, on the contributions.

Expenses are reported as decreases in unrestricted net assets. Net realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired and placed in service and are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

(c) Investments

Investments consist of marketable securities, privately held limited partnerships, and real estate.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

Marketable securities are stated at fair value based on quoted market prices. The net realized and unrealized gains on investments are reflected in the statements of activities. Net realized and unrealized gains are allocated to net asset classes dependent upon donor specifications.

Investments in private limited partnership interests are valued using the most current information provided by the general partner. The change in net assets related to limited partnership interests is presented as net realized and unrealized gains based upon the estimated fair value of each partnership as determined by the general partner. General partners typically value privately held companies at cost as adjusted based on recent arm's-length transactions. Real estate partnerships and funds are valued based on appraisals of properties held and are conducted by third-party appraisers retained by the general partner or investment manager. General partners of funds invested in marketable securities provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. Investment managers are authorized to employ derivative instruments, including swaps, futures, forwards, and options. These derivatives are generally used for managing interest rate or foreign currency risk or to attain or hedge a specific financial market position. The College does not have direct investments in such instruments. Management reviews and evaluates valuation information provided by general partners and investment managers, and management believes such values are reasonable estimates of fair value.

The College's investments include various types of investment securities and investment vehicles. Investment securities are exposed to various risks, such as liquidity, interest rate, currency, market, and credit risks.

Liquidity risk represents the possibility that the College may be unable to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the College was compelled to dispose of a liquid investment at an inopportune time, it may be required to do so at a substantial discount to fair value.

The College invests in alternative investments, which can be highly illiquid. Under adverse market or economic conditions, the secondary market for certain of these alternative investments could contract. As a result, the College could find it more difficult to sell these securities or may only be able to sell the securities at prices lower than if such securities were more widely traded. The College's interests in alternative investments are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the College's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2016, the College had no plans or intentions to sell investments at amounts different from NAV.

The College holds investments denominated in currencies other than the U.S. dollar. Thus, there is exposure to currency risk because the value of the investments denominated in other currencies may fluctuate due to changes in currency exchange rates and this can have an adverse effect on the reported value of assets and liabilities denominated in currencies other than the U.S. dollar.

The College's investment portfolio is subject to interest rate and credit risks for certain securities whose valuation would be impacted by changes in interest rates. The portfolio is also subject to the risk where the issuer of a security is not able to pay interest or repay principal when it is due.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

The value of securities held by the College may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Those events impacting valuation may include (but are not limited to) economic changes, market fluctuations, regulatory changes, global and political instability, and currency, interest rate, and commodity price fluctuations. The College attempts to manage these risks through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the College's financial statements.

(d) Property and Equipment

Property and equipment are stated at cost at date of acquisition or at estimated fair value at date of donation, less accumulated depreciation.

Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. A summary of depreciable lives is as follows:

Land improvements	25 years
Buildings	50 years
Furniture and equipment	5 years
Investment in the Robert W. Woodruff library at the Atlanta University Center Consortium, Inc.	7 years

(e) Advances from Federal Government for Student Loans

The College owns a one-tenth interest in its Federal Perkins Loan fund used to advance loans to the college students. The remaining nine-tenths is distributable to the federal government upon liquidation of the federal loan program and is recorded as a liability in the accompanying statements of financial position.

(f) Income Tax Status

The College is recognized as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3), whereby only unrelated business income, as defined by Section 512(a) of the Code, is subject to federal income tax. The College reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the financial statements at June 30, 2016 and 2015.

(g) Atlanta University Center Consortium, Inc.

The College records as expense an allocated share of expenditures made through Atlanta University Center Consortium, Inc., an affiliated organization, for the benefit of the four affiliated institutions.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

(h) Cash Equivalents

Cash equivalents consist primarily of money market accounts, commercial paper, and any other short-term investments with original maturities of three months or less. Cash and cash equivalents that are part of the pooled investments are shown within investments as these funds are generally not used for daily operating needs.

(i) Use of Estimates

Management of the College has made certain estimates and assumptions relating to the reporting of the allowance for uncollectible student receivables and contributions receivables, useful lives of property and equipment, investments without readily determinable fair values, and accrued expenses to prepare the financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(j) Bond Issuance Costs

Bond issuance costs related to the registration and issuance of bonds are carried at cost, less accumulated amortization, and are being amortized over the life of the related bonds. Unamortized bond issuance costs are recorded as a direct deduction from bonds and notes payable on the accompanying statements of financial position.

(k) Conditional Asset Retirement Obligations

The College has identified asbestos and lead paint abatement as conditional asset retirement obligations (ARO). Asbestos and lead paint abatement costs were estimated using a per/square foot estimate. The College is required to recognize period-to-period changes in an ARO liability resulting from the passage of time (accretion expense) and revisions in cash flow estimates. The College's ARO are included in accounts payable and accrued expenses in the accompanying statements of financial position.

The following table presents the activity of the College's ARO for the years ended June 30, 2016 and 2015:

	2016	2015
Balance at beginning of year	\$ 1,619,670	1,555,135
Accretion expense	89,020	64,535
Balance at end of year	\$ 1,708,690	1,619,670

(l) Recently Issued Accounting Standards

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements, which have not yet been issued or made available for issuance. The College early adopted this provision of ASU 2016-01 as of June 30, 2016. The College will adopt the remaining provisions of the ASU during fiscal year 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (ASU 2016-02). The amendments in ASU 2016-02 create FASB Accounting Standards Codification (ASC) Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for all business entities for fiscal years beginning after December 15, 2019. The College will implement the provisions of ASU 2016-02 during fiscal year 2021. The College has not yet determined the impact of the new standard on its current policies for lessee accounting

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Non-for-Profit Entities*. ASU 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The College will implement the provisions of ASU 2016-14 during fiscal year 2019. The College has not yet determined the impact of the new standard on its current policies.

(2) Contributions Receivable, Net

Contributions receivable as of June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	\$ 5,367,188	5,286,520
One year to five years	2,672,108	3,275,202
Greater than five years	2,241	21,097
	8,041,537	8,582,819
Less allowance for uncollectible contributions	402,084	309,148
Less unamortized discount	431,703	798,728
	\$ 7,207,750	7,474,943

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

Contributions are discounted at rates ranging from 2.71% to 7.71% for the years ended June 30, 2016 and 2015, commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue and classified in accordance with donor-imposed restrictions. The College's allowance for uncollectible contributions is estimated by using past collection history as an indication of future collections. At June 30, 2016 and 2015, the College's two largest outstanding donor pledge balances represented 51% and 36%, respectively, of the College's gross contributions receivable.

(3) Investments

The fair value of investments is summarized as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>2016 Unfunded capital commitments</u>	<u>2015 Unfunded capital commitments</u>
Short-term investments	\$ 9,098,847	10,082,161	—	—
U.S. equity	31,505,476	45,426,242	—	—
Non-U.S. equity:				
Developed markets	13,592,798	23,462,480	—	—
Emerging markets	28,209,010	16,500,118	—	—
	<u>41,801,808</u>	<u>39,962,598</u>	<u>—</u>	<u>—</u>
Marketable alternatives	83,255,750	81,750,899	—	—
Real assets:				
Natural resources	7,231,775	7,466,615	5,983,459	3,960,170
Real estate	16,862,646	20,817,315	231,437	248,373
	<u>24,094,421</u>	<u>28,283,930</u>	<u>6,214,896</u>	<u>4,208,543</u>
Private equity:				
Private and venture capital	120,827,227	122,919,720	49,455,220	31,616,130
Distressed	13,182,802	12,418,879	10,141,659	7,142,800
	<u>134,010,029</u>	<u>135,338,599</u>	<u>59,596,879</u>	<u>38,758,930</u>
Fixed income	<u>23,214,841</u>	<u>22,141,976</u>	<u>8,850,622</u>	<u>4,170,691</u>
Total investments, at fair value	<u>\$ 346,981,172</u>	<u>362,986,405</u>	<u>74,662,397</u>	<u>47,138,164</u>

The College has investments in certain partnerships, and is obligated under the related partnership agreements to invest additional capital amounts. The College estimates that the additional capital amounts will be paid over the next five years depending on timing of potential investment opportunities identified by investment fund managers.

SPELMAN COLLEGE
Notes to Financial Statements
June 30, 2016 and 2015

The following is a summary of the liquidation terms of investments as of June 30, 2016 and 2015:

	2016							Day(s) notice
	Redemption period						Total	
	Daily	Monthly	Quarterly	Semi annually	Annually	Illiquid		
Short-term investments (a)	\$ 9,098,847	—	—	—	—	—	9,098,847	1
U.S. equity (b)	16,725,442	377,879	14,402,155	—	—	—	31,505,476	1–90
Non-U.S. equity (b)	5,182,269	15,550,060	4,503,108	—	13,574,842	2,991,529	41,801,808	60–120
Marketable alternatives (c)	5,764,507	9,880,547	14,913,308	11,697,289	35,386,700	5,613,399	83,255,750	30–90
Real assets (d)	—	—	—	—	12,743	24,081,678	24,094,421	5–90
Private equity (e)	—	—	—	—	—	134,010,029	134,010,029	—
Fixed income (f)	—	14,557,282	—	—	—	8,657,559	23,214,841	3–90
Total	\$ 36,771,065	40,365,768	33,818,571	11,697,289	48,974,285	175,354,194	346,981,172	

	2015							Day(s) notice
	Redemption period						Total	
	Daily	Monthly	Quarterly	Semi annually	Annually	Illiquid		
Short-term investments (a)	\$ 10,082,161	—	—	—	—	—	10,082,161	1
U.S. equity (b)	25,452,487	397,596	19,576,159	—	—	—	45,426,242	1–90
Non-U.S. equity (b)	—	24,439,554	5,285,961	—	10,237,083	—	39,962,598	60–120
Marketable alternatives (c)	6,771,936	8,437,845	14,998,861	11,426,866	23,132,584	16,982,807	81,750,899	30–90
Real assets (d)	—	—	—	—	574,904	27,709,026	28,283,930	5–90
Private equity (e)	—	—	—	—	—	135,338,599	135,338,599	—
Fixed income (f)	5,966,802	7,049,390	3,216,544	—	—	5,909,240	22,141,976	3–90
Total	\$ 48,273,386	40,324,385	43,077,525	11,426,866	33,944,571	185,939,672	362,986,405	

- (a) This category includes assets that are cash or readily convertible to cash, such as money market funds.
- (b) This category includes investments in funds that take long positions in publicly traded equity securities. Approximately 43% of these investments are in U.S. companies and 57% are in non-U.S. companies. A range of styles, market caps, and geographic focuses is included. The public nature of the securities makes this category very liquid.
- (c) This category includes investments in hedge funds that take long and short positions largely in equity securities, credit securities, and event-driven situations. Managers vary in style, market cap focus, geographic focus, sectors of focus, and types of securities, with some having considerable flexibility in each of these areas. The funds also vary in net long/short positioning with most equity funds generally maintaining a low net and little or no leverage. Most credit funds generally maintain a moderate net long position and little or no leverage.
- (d) This category includes investments in real estate equity funds and commodity funds that take ownership of properties ranging from office, retail, multifamily, land, hotel, and various other commodities. These are investments that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 4-10 years. There are currently no plans

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the manager.

- (e) This category includes investments in private equity funds that provide growth equity or take full ownership of the companies in which they invest. Private equity funds take significant ownership positions in start-up or early-stage companies largely in the technology or healthcare spaces. These are private investments that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 4-8 years. There are currently no plans to sell any of these investments prior to their liquidation, so the assets are carried at NAV as estimated by the manager.
- (f) This category includes investments in funds that take long positions in publicly traded fixed income securities. Derivatives may be used to replicate securities or change the positioning of the portfolio without the need to buy or sell securities. The public nature of the securities makes this category very liquid.

As of June 30, 2016 and 2015, the College has approximately \$296,000,000 and \$295,000,000, respectively, of investments that are reported at estimated fair value based on NAV of the funds. Unless it is probable that all or a portion of the investment will be sold for an amount different from NAV, the College has applied a practical expedient and concluded that the NAV reported by the underlying fund approximates the fair value of these investments. Management estimates of fair value are based upon information provided by general partners and investment managers. At June 30, 2016 and 2015, the College did not have any investments with redemption lock up provisions.

The College's investment return for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Operating realized and unrealized gains on investments	\$ 1,837	106,137
Nonoperating realized and unrealized (losses) gains on investments	(2,453,017)	13,395,255
Total realized and unrealized (losses) gains on investments	(2,451,180)	13,501,392
Operating investment income	36,808	14,840
Nonoperating investment income	2,640,067	3,689,389
Total investment income	2,676,875	3,704,229
Total investment return	225,695	17,205,621
Investment return designated for current operations and endowment spending:		
Operating endowment spending	18,344,580	18,019,451
Nonoperating endowment spending	13,915	13,414
	18,358,495	18,032,865
Investment return (less than) in excess of amounts designated for current operations and endowment spending	\$ (18,132,800)	(827,244)

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

Investment management fees approximated \$1,972,000 and \$2,030,000 for the years ended June 30, 2016 and 2015, respectively.

(4) Endowment Net Assets

The College's endowment consists of 299 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) *Interpretation of Relevant Law*

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act), as adopted in Georgia, as providing among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the institution to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was previously not allowed. The College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

Endowment net assets consisted of the following at June 30, 2016 and 2015:

		2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
	Donor-restricted endowment funds	\$ (540,396)	167,370,914	122,715,329	289,545,847
	Board-designated endowment funds	58,862,547	—	—	58,862,547
	Total endowed net assets	\$ 58,322,151	167,370,914	122,715,329	348,408,394
		2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
	Donor-restricted endowment funds	\$ (178,873)	183,169,467	119,813,916	302,804,510
	Board-designated endowment funds	62,224,825	—	—	62,224,825
	Total endowed net assets	\$ 62,045,952	183,169,467	119,813,916	365,029,335

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

Changes in endowment net assets for the years ended June 30, 2016 and 2015 were as follows:

	2016			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ 62,045,952	183,169,467	119,813,916	365,029,335
Investment return:				
Investment income	421,742	2,218,325	—	2,640,067
Net appreciation (depreciation)	1,955,950	(4,408,967)	—	(2,453,017)
Total investment return (loss)	2,377,692	(2,190,642)	—	187,050
Contributions	—	—	2,951,117	2,951,117
Appropriation of endowment assets for:				
Operations	(2,842,505)	(13,638,719)	—	(16,481,224)
Support of the College's investments office	(1,877,271)	—	—	(1,877,271)
Appropriation of endowment assets for campaign support	(1,381,717)	(30,000)	—	(1,411,717)
Transfers – other	—	49,704	(49,704)	—
Transfer of annuity funds, net	—	11,104	—	11,104
Endowment net asset, June 30, 2016	<u>\$ 58,322,151</u>	<u>167,370,914</u>	<u>122,715,329</u>	<u>348,408,394</u>

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2014	\$ 61,095,256	186,766,583	120,786,634	368,648,473
Investment return:				
Investment income	583,847	3,105,542	—	3,689,389
Net appreciation	7,027,611	6,367,644	—	13,395,255
Total investment return	7,611,458	9,473,186	—	17,084,644
Contributions	—	—	3,027,282	3,027,282
Appropriation of endowment assets for:				
Operations	(3,181,757)	(13,035,173)	—	(16,216,930)
Support of the College's investments office	(1,815,934)	—	—	(1,815,934)
Appropriation of endowment assets for campaign support	(1,713,158)	(37,051)	—	(1,750,209)
Transfer to board- designated funds	50,087	—	—	50,087
Return and settlement of endowed gift	—	—	(4,000,000)	(4,000,000)
Transfer of annuity funds, net	—	1,922	—	1,922
Endowment net asset, June 30, 2015	\$ 62,045,952	183,169,467	119,813,916	365,029,335

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted endowed net assets were \$540,396 and \$178,873 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted endowed net assets.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

(c) *Return Objectives and Risk Parameters*

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 60% of the Russell 3000, 10% of the European and Far East (MSCI) Index, and 30% of the Barclays Aggregate Bond Index while assuming a moderate level of investment risk. The College expects its endowment funds, over three to five years, to provide an average annual real rate of return of approximately 5%–6% annually. Actual returns in any given year may vary from this amount.

(d) *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on investments in equities, fixed income, hedge funds, and alternative assets (distressed, real estate, venture capital, and private equities) to achieve its long-term objectives within prudent risk parameters.

(e) *Spending Policy*

The College utilizes the total return concept (income yield and appreciation) in the management of its endowment. The College has implemented a spending policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. In accordance with the College's policy, a predetermined endowment spending rate, consistent with the College's total return objective, has been established. Should the actual return be insufficient to support this policy, the balance is provided from net accumulated appreciation. Should the return exceed the amounts withdrawn in accordance with the spending policy, the balance is reinvested in the endowment.

The College has a policy of appropriating for distribution each year 4.95% of a weighted average of its endowment funds values as of September 30 for each of the four fiscal years preceding the fiscal year in which the distribution is planned. In establishing these policies, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate at least equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return. The College withdrew an additional 0.38% of the fair value of the endowment as of the beginning of the year for each of the years ended June 30, 2016 and 2015 in order to support its capital campaign. The actual spending rate used to support the College's operating budget for the years ended June 30, 2016 and 2015, calculated as a percentage of the fair value of the endowment as of the beginning of the year, was approximately 5.44% and 5.40%, respectively.

SPELMAN COLLEGE
Notes to Financial Statements
June 30, 2016 and 2015

(5) Property and Equipment

Property and equipment as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 14,687,722	14,687,723
Land improvements	22,256,371	21,654,216
Buildings	202,196,441	187,915,103
Furniture and equipment	29,165,423	27,677,019
Robert W. Woodruff Library at the Atlanta University Center Consortium, Inc.	547,000	547,000
Construction in progress	<u>1,850,496</u>	<u>18,873,766</u>
	270,703,453	271,354,827
Less accumulated depreciation	<u>106,263,833</u>	<u>103,014,081</u>
	<u>\$ 164,439,620</u>	<u>168,340,746</u>

Depreciation expense totaled \$5,007,156 and \$4,848,277 in 2016 and 2015, respectively.

(6) Bonds and Note Payable

Bonds and note payable as of June 30, 2016 and 2015 consist of the following:

	<u>Interest rates</u>	<u>Maturity (serially)</u>	<u>Original issue</u>	<u>Outstanding as of June 30</u>	
				<u>2016</u>	<u>2015</u>
Private Colleges and Universities:					
Authority Revenue Bonds –					
2003 Series	2.00%–5.25%	2022	\$ 29,780,000	\$ 3,395,000	3,820,000
Development Authority of					
Fulton County:					
Adjustable rate demand:					
Revenue Bonds of 1996	1.80%	2016	3,000,000	—	300,000
Revenue Bonds of 1999	1.98%	2019	8,000,000	3,600,000	4,100,000
Fixed rate:					
Revenue Bonds of 2007	4.00%	2017	34,760,000	535,000	1,050,000
Revenue Bonds of 2012	2.00%–5.00%	2029	25,145,000	17,765,000	19,940,000
Revenue Bonds of 2012	4.00%	2029	725,000	725,000	725,000
Revenue Bonds of 2015	3.25%–5.00%	2032	52,080,000	<u>52,080,000</u>	<u>52,080,000</u>
				78,100,000	82,015,000

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

	<u>Interest rates</u>	<u>Maturity (serially)</u>	<u>Original issue</u>	<u>Outstanding as of June 30</u>	
				<u>2016</u>	<u>2015</u>
Unamortized premium				\$ 8,466,011	9,420,331
Unamortized bond issuance costs				<u>(1,035,880)</u>	<u>(1,132,967)</u>
Total bonds payable, net				85,530,131	90,302,364
2011 note payable to equipment supplier	N/A	2016	N/A	<u>213,610</u>	<u>427,220</u>
Total bonds and note payable				<u>\$ 85,743,741</u>	<u>90,729,584</u>

Under the terms of the agreements related thereto, the Revenue Bonds of 2003 (the 2003 bonds) are unsecured general obligations of the College. The proceeds of the 2003 bonds were for the purpose of financing or refinancing all or a portion of various projects and advance refunding of the 1994 bonds. In April 2012, \$17,010,000 of the proceeds from the issuance of the Revenue Bonds of 2012 was held in escrow for advance refunding of a portion of the 2003 bonds.

Under the terms of the bond financing documents related thereto, the Revenue Bonds of 1996 and 1999 are general obligations of the College. The bonds were secured by irrevocable, direct pay letters of credit issued by a commercial bank from the date of the original issuance of the bonds until September 21, 2009. On that date, the bond financing documents were amended to include a tax-exempt bank qualified option. This allowed the bonds to be purchased by the bank, which previously issued the letter of credit. The interest rate on the bonds changed to 0.67% of the sum of LIBOR plus 2.5%. The College continues to pledge “Unrestricted College Revenue” as security for its repayment obligations under the bonds. The maturity dates of the bonds did not change. During the year, the 1996 bonds were paid in full.

Under the terms of the agreements related thereto, the Revenue Bonds of 2007 (2007 bonds) are unsecured general obligations of the College. The proceeds of the 2007 bonds were for the purpose of financing all or a portion of various projects, as well as refunding the 1994 bonds, and repayment in full of the 2004 note payable. In April 2015, \$53,820,000 of the proceeds from the issuance of the Revenue Bonds of 2015 was held in escrow for advance refunding of a portion of the 2007 bonds.

Under the terms of the agreements related thereto, the Revenue Bonds of 2012 (2012 bonds) are unsecured general obligations of the College. The proceeds of the 2012 bonds were for the purpose of advance refunding a portion of the 2003 bonds and refunding the outstanding principal balances of the 2005 and 2008 notes payable to a commercial bank. Approximately \$18,559,000 of the proceeds from the issuance of the 2012 bonds was placed in escrow in order to refund \$17,010,000 of the 2003 bonds on June 1, 2012.

Under the terms of the agreements related thereto, the Revenue Bonds of 2015 (2015 bonds) are unsecured general obligations of the College. The proceeds of the 2015 bonds were for the purpose of advance refunding a portion of the 2007 bonds. Approximately \$59,683,000 of the proceeds from the issuance of the 2015 bonds was placed in escrow in order to refund \$53,820,000 of the 2007 bonds based on an amended maturity date of June 1, 2017.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

On September 16, 2011, the College entered into a computer equipment financing agreement with a manufacturer in the amount of \$1,281,659. The note requires annual payments of \$213,610, is noninterest bearing, and is secured by equipment having a book value of \$213,610 and \$427,220 at June 30, 2016 and 2015, respectively. The note matures on September 16, 2016.

The maturity schedule for bonds and notes payable as of June 30, 2016 is as follows:

	Year ending June 30						Total
	2017	2018	2019	2020	2021	Thereafter	
Revenue Bonds of 1999	\$ 900,000	900,000	900,000	900,000	—	—	3,600,000
Revenue Bonds of 2003	500,000	520,000	555,000	585,000	600,000	635,000	3,395,000
Revenue Bonds of 2007	535,000	—	—	—	—	—	535,000
Revenue Bonds of 2012	2,415,000	2,510,000	2,590,000	2,685,000	2,725,000	5,565,000	18,490,000
Revenue Bonds of 2015	—	—	—	—	800,000	51,280,000	52,080,000
2011 note	213,610	—	—	—	—	—	213,610
	<u>\$ 4,563,610</u>	<u>3,930,000</u>	<u>4,045,000</u>	<u>4,170,000</u>	<u>4,125,000</u>	<u>57,480,000</u>	78,313,610
Unamortized premium							8,466,011
Unamortized bond issuance costs							<u>(1,035,880)</u>
							<u>\$ 85,743,741</u>

The terms of the bonds and note provide for certain nonfinancial covenants. The College's management believes it is in compliance with these requirements at June 30, 2016.

(7) Interest Expense

Interest expense related to bonds and note payable approximated \$2,774,000 and \$2,399,000 for the years ended June 30, 2016 and 2015, respectively.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

(8) Net Assets Released from Restrictions

Net assets were released from donor-imposed temporary restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended June 30, 2016 and 2015 as follows:

	2016	2015
Operating:		
Scholarships and fellowships	\$ 13,481,816	13,292,913
Instruction	6,178,482	5,557,414
Research	2,951,181	2,334,335
Public service	69,028	198,297
Academic support	680,599	947,678
Student services	1,086,106	889,032
Institutional support	662,249	712,855
Auxiliary enterprises	21,544	32,915
Other	2,912,713	3,079,413
	28,043,718	27,044,852
Nonoperating:		
Construction	1,096,970	13,493,873
Expired term annuities	16,956	—
	\$ 29,157,644	40,538,725

(9) Net Assets

Temporarily restricted net assets as of June 30, 2016 and 2015 were available for the following purposes:

	2016	2015
Scholarships and fellowships	\$ 86,768,033	95,861,360
Programs and other operating purposes	97,100,570	99,229,412
Purchase of property and equipment	2,617,002	3,532,102
	\$ 186,485,605	198,622,874

Permanently restricted net assets totaling \$122,715,329 and \$119,813,916 as of June 30, 2016 and 2015, respectively, consist of endowment investments whose income and net realized and unrealized gains are available for the College's operations, scholarships, and various academic programs.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

(10) Fair Value

The College's estimates of fair value for financial assets and liabilities are based on the framework established in ASC Topic 820, *Fair Value Measurement*. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 inputs – Quoted prices for instruments that are identical or similar in markets that are not active and model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.
- Level 3 inputs – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

As of June 30, 2016 and 2015, the College has approximately \$13,039,000 and \$16,942,000, respectively, of investments classified as either Level 2 or Level 3. While the College's investment in these funds is classified as Level 2 or 3, the underlying investments of the fund may be classified as Level 1 within the fund itself. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment to the investor and does not necessarily correspond to the perceived risk of that investment. The hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The funds and the College use inputs in applying various valuation techniques that consider assumptions, which market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples, discount rates, and other factors.

Underlying fund investments made directly by the College whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include actively traded common and preferred stock, U.S. government fixed income instruments, and non-U.S. government fixed income instruments. Level 1 investments may also include listed mutual funds, exchange-traded funds (ETFs), and money market funds.

Investments that trade in markets that are considered to be active, but are based on dealer quotations or alternative pricing sources supported by observable inputs or investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2 and are redeemable within 90 days of the financial reporting date. Alternative pricing sources include quotations from market participants and pricing models, which are based on accepted industry modeling techniques.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all and are not redeemable within 90 days of the financial reporting date. Level 3 investments include limited partnerships and private placement fund investments. Inputs used may include the original transaction price, recent transactions in the same or a similar market, completed or pending third-party transactions in the underlying investment or comparable issuers, and subsequent rounds of financing. When observable prices are not available, these investments are valued using one or a combination of the valuation techniques described below:

- **Market approach:** This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- **Income approach:** This approach determines a valuation by discounting future cash flows.
- **Cost approach:** This approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable.

In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using NAV as a practical expedient to fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

The following tables present for each level within the fair value hierarchy, the College's recurring and nonrecurring fair value measurements for assets as of June 30, 2016 and 2015:

	June 30, 2016				
	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Recurring:					
Assets:					
Cash and cash equivalents	\$ 22,461,440	—	—	—	22,461,440
Investments:					
Short-term investments	9,098,847	—	—	—	9,098,847
U.S. equity	17,103,321	—	—	14,402,155	31,505,476
Non-U.S. equity	1,072,680	—	—	40,729,128	41,801,808
Marketable alternatives	5,764,507	—	—	77,491,243	83,255,750
Real assets	—	—	13,039,269	11,055,152	24,094,421
Private equity	—	—	—	134,010,029	134,010,029
Fixed income	4,432,936	—	—	18,781,905	23,214,841
Total investments	37,472,291	—	13,039,269	296,469,612	346,981,172
	\$ 59,933,731	—	13,039,269	296,469,612	369,442,612

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

		June 30, 2015				
		Level 1	Level 2	Level 3	Investments measured at NAV	Total
Recurring:						
Assets:						
Cash and cash equivalents	\$	21,031,644	—	—	—	21,031,644
Investments:						
Short-term investments		10,082,161	—	—	—	10,082,161
U.S. equity		25,850,083	—	—	19,576,159	45,426,242
Non-U.S. equity		—	—	—	39,962,598	39,962,598
Marketable alternatives		6,771,936	—	—	74,978,963	81,750,899
Real assets		—	—	16,941,809	11,342,121	28,283,930
Private equity		—	—	—	135,338,599	135,338,599
Fixed income		8,100,354	—	—	14,041,622	22,141,976
Total investments		<u>50,804,534</u>	<u>—</u>	<u>16,941,809</u>	<u>295,240,062</u>	<u>362,986,405</u>
	\$	<u>71,836,178</u>	<u>—</u>	<u>16,941,809</u>	<u>295,240,062</u>	<u>384,018,049</u>

The carrying amounts of cash and cash equivalents, student accounts receivable, and grants and other receivables approximate fair value because of the terms and relatively short maturity of these financial instruments. Split-interest obligation carrying amounts approximate fair value because these instruments are recorded at estimated net present value of future cash flows determined as of the date of the gift. Investments are reported at fair value as of the date of the financial statements.

Contributions receivable for current year gifts are initially measured at fair value in the year the receivable is recorded based on the present value of future cash flows discounted at a rate commensurate with risks involved, which is an application of the income approach. Current year gifts included in contributions receivable reflected at fair value at June 30, 2016 and 2015 were approximately \$4,500,000 and \$1,200,000, respectively.

A reasonable estimate of the fair value of advances from the federal government and student loans could not be made because the notes receivable are not salable and can only be assigned to the federal government or its designees. The carrying value of institutional student notes receivable approximates fair value.

The carrying amounts of accounts payable, accrued payroll and employee withholdings, and other related accruals approximate fair value because of the relatively short maturity of these financial instruments.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

The following tables present additional information about Level 3 financial instruments measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that were classified within the Level 3 category. As a result, the unrealized gains and losses for financial instruments within the Level 3 category in the table below may include changes in fair value that were attributable to both observable and unobservable inputs.

Level 3 rollforward	Real assets		
Fair value at June 30, 2014	\$ 22,884,768		
Acquisitions	1,614,375		
Dispositions	(581,429)		
Net realized and unrealized losses	(6,975,905)		
Fair value at June 30, 2015	16,941,809		
Acquisitions	—		
Dispositions	(1,929,182)		
Net realized and unrealized losses	(1,973,358)		
Fair value at June 30, 2016	\$ 13,039,269		
		2016	2015
Net losses in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30	\$ (11,989,084)		(9,655,726)

The College’s accounting policy is to recognize transfers among levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. During 2016 and 2015, there were no transfers into or out of Level 2 or 3.

(11) Operating Expenses

Expenses are reported in the accompanying statements of activities in categories recommended by the National Association of College and University Business Officers. The College’s primary program service is instruction. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of this primary program service. Institutional support includes fund-raising expenses approximating \$4,100,000 and \$3,900,000 for the years ended June 30, 2016 and 2015, respectively.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

Operating expenses classified by natural type for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Salaries and wages	\$ 38,601,213	36,903,055
Fringe benefits	11,300,080	10,147,363
Depreciation	5,007,156	4,848,277
Interest on indebtedness	2,773,530	2,399,207
Other expenses	37,039,207	33,727,400
Total operating expenses	\$ 94,721,186	88,025,302

The College allocates operation and maintenance of plant, interest and depreciation to the program, and support expenses reported in the accompanying statements of activities based upon various methods. The following tables report the amount of these expenses included in the accompanying statements of activities for the years ended June 30, 2016 and 2015:

2016					
Functional category	Direct expenses	Operation and maintenance of plant	Interest	Depreciation	Total expenses
Instruction	\$ 24,163,571	3,577,585	—	1,107,638	28,848,794
Research	4,157,567	—	—	278,187	4,435,754
Public service	267,379	—	—	—	267,379
Academic support	7,415,957	307,963	—	2,939	7,726,859
Student services	10,813,987	1,365,457	—	296,105	12,475,549
Institutional support	21,102,487	1,846,358	1,143,480	1,440,662	25,532,987
Auxiliary enterprises	11,590,733	331,456	1,630,050	1,881,625	15,433,864
	\$ 79,511,681	7,428,819	2,773,530	5,007,156	94,721,186

2015					
Functional category	Direct expenses	Operation and maintenance of plant	Interest	Depreciation	Total expenses
Instruction	\$ 22,995,768	3,546,154	—	1,032,350	27,574,272
Research	3,579,183	—	—	326,039	3,905,222
Public service	420,729	—	—	—	420,729
Academic support	7,235,143	295,461	—	372,071	7,902,675
Student services	8,566,564	1,334,077	—	1,385,821	11,286,462
Institutional support	19,591,226	1,420,409	1,046,608	409,364	22,467,607
Auxiliary enterprises	11,489,207	303,897	1,352,599	1,322,632	14,468,335
	\$ 73,877,820	6,899,998	2,399,207	4,848,277	88,025,302

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

(12) Pension Plan

The College has a defined-contribution retirement plan with Teacher's Insurance and Annuity Association and College Retirement Equities Fund, which covers substantially all full-time employees at time of employment. Employees are fully vested in the College's contributions after completing three full years of service.

Total pension expense under this plan approximated \$1,958,000 and \$1,613,000 for the years ended June 30, 2016 and 2015, respectively.

(13) Commitments and Contingencies

(a) Federal Compliance Audits

Certain federally funded financial aid programs are routinely subject to compliance audit. The reports on the examinations, which are conducted pursuant to specific regulatory requirements by the independent auditors for the College, are required to be submitted to both the College and the U.S. Department of Education. Such agency has the authority to determine liabilities, as well as to limit, suspend, or terminate federal student aid programs.

These audits could result in claims against the resources of the College. No provision has been recorded for any liabilities which may arise from such audits, since the amounts, if any, cannot be determined at this date. Management believes that any such amounts would not have a material adverse effect on its financial position at June 30, 2016.

(b) Litigation

The College is a defendant in various litigation considered to be in the normal course of business. Although the final results of any litigation cannot be predicted with certainty, the College believes the outcome of pending litigation will not have a material adverse effect on its financial position, changes in net assets, or cash flows.

(c) Operating Leases

The College has several noncancelable operating leases for equipment with expiration dates through 2020.

Future minimum lease payments for years ending June 30 are as follows:

2017	\$	890,000
2018		843,000
2019		208,000
2020		94,000
		<hr/>
	\$	<u>2,035,000</u>

Rent expense related to noncancelable operating leases with terms in excess of one year approximated \$580,000 and \$550,000 for the years ended June 30, 2016 and 2015, respectively.

SPELMAN COLLEGE

Notes to Financial Statements

June 30, 2016 and 2015

(14) Subsequent Events

The College evaluated subsequent events from the financial reporting date of June 30, 2016 through October 25, 2016, which is the date the College's financial statements were available to be issued, and determined that there were no significant subsequent events requiring disclosure.