



**MARTIN, HARPS, SYPHOE & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS

**SPELMAN COLLEGE**

Financial Statements

June 30, 2015 and 2014

(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, 2015 and 2014, 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, 2015 and 2014, 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

*Martin, Harps, Syphe & Co.*

October 19, 2015

**SPELMAN COLLEGE**

Statements of Financial Position

June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 21,031,644	23,318,260
Student accounts receivable (net of allowance for doubtful accounts of \$2,280,000 in 2015 and \$2,082,000 in 2014)	1,521,055	1,854,068
Grants and other receivables	1,566,833	1,197,396
Contributions receivable, net (note 2)	7,474,943	15,046,691
Student notes receivable (net of allowance for doubtful accounts of \$1,200,000 in 2015 and 2014)	1,483,478	1,511,279
Investments (notes 3 and 10)	362,986,405	367,036,697
Other assets	1,324,172	1,315,099
Property and equipment, net (notes 5 and 6)	168,340,746	158,635,322
Total assets	\$ <u>565,729,276</u>	<u>569,914,812</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 8,450,912	5,784,287
Accrued compensation and related expenses	4,215,920	5,778,869
Deferred revenue	1,518,885	1,237,027
Bonds and note payable (note 6)	90,729,584	91,426,394
Obligation under capital leases (note 13)	—	50,890
Advances from federal government	1,589,588	1,572,168
Total liabilities	<u>106,504,889</u>	<u>105,849,635</u>
Net assets:		
Unrestricted:		
Undesignated	201,396	177,068
Designated by the board of trustees as follows:		
Quasi-endowment, net (note 4)	62,045,952	61,095,256
Student loans	179,304	188,196
Facilities expansion	22,265,535	6,808,725
Investment in property and equipment	56,095,410	59,559,640
Total unrestricted net assets	140,787,597	127,828,885
Temporarily restricted (notes 4 and 9)	198,622,874	215,449,658
Permanently restricted (notes 4 and 9)	119,813,916	120,786,634
Total net assets	459,224,387	464,065,177
Commitments and contingencies (notes 3, 6, 12, and 13)		
Total liabilities and net assets	\$ <u>565,729,276</u>	<u>569,914,812</u>

See accompanying notes to financial statements.

**SPELMAN COLLEGE**

Statement of Activities

Year ended June 30, 2015

(with summarized financial information for the year ended June 30, 2014)

	2015			2014	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	\$ 51,170,750	—	—	51,170,750	49,390,278
Less student aid	(17,754,268)	—	—	(17,754,268)	(16,180,166)
Tuition and fees, net	33,416,482	—	—	33,416,482	33,210,112
Government grants and contracts	418,362	6,059,551	—	6,477,913	6,396,042
Private gifts and grants	2,697,522	8,001,887	—	10,699,409	12,649,423
Investment income (note 3)	14,179	661	—	14,840	16,156
Realized and unrealized gains on investments, net (note 3)	106,137	—	—	106,137	2,419
Endowment spending in accordance with College's spending rule (notes 3 and 4)	4,997,691	13,021,760	—	18,019,451	17,854,730
Sales and services of auxiliary enterprises	20,617,117	—	—	20,617,117	20,196,687
Other	1,066,804	—	—	1,066,804	964,918
Net assets released from restrictions (note 8)	27,044,852	(27,044,852)	—	—	—
Total operating revenues	90,379,146	39,007	—	90,418,153	91,290,487
Operating expenses (note 11):					
Instruction	27,574,272	—	—	27,574,272	25,805,626
Research	3,905,222	—	—	3,905,222	3,619,305
Public service	420,729	—	—	420,729	376,695
Academic support	7,902,675	—	—	7,902,675	7,858,306
Student services	11,286,462	—	—	11,286,462	11,210,233
Institutional support	22,467,607	—	—	22,467,607	22,095,046
Auxiliary enterprises	14,468,335	—	—	14,468,335	13,586,487
Total operating expenses	88,025,302	—	—	88,025,302	84,551,698
Change in net assets from operating activities	2,353,844	39,007	—	2,392,851	6,738,789
Nonoperating activities:					
Contributions	—	186,570	3,027,282	3,213,852	7,083,348
Investment income (note 3)	583,847	3,105,542	—	3,689,389	4,424,241
Change in present value of split interest agreements	—	(10,079)	—	(10,079)	(13,114)
Realized and unrealized gains on investments, net (note 3)	7,027,611	6,367,644	—	13,395,255	52,299,805
Endowment spending in accordance with College's spending rule (notes 3 and 4)	(4,997,691)	(13,021,760)	—	(18,019,451)	(17,854,730)
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)	(1,814,731)
Other nonoperating (expenses) income	40	165	(4,000,000)	(3,999,795)	(16)
Change in net assets from nonoperating activities	10,604,868	(16,865,791)	(972,718)	(7,233,641)	44,124,803
Change in net assets	12,958,712	(16,826,784)	(972,718)	(4,840,790)	50,863,592
Net assets at beginning of year	127,828,885	215,449,658	120,786,634	464,065,177	413,201,585
Net assets at end of year	\$ 140,787,597	198,622,874	119,813,916	459,224,387	464,065,177

See accompanying notes to financial statements.

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Statement of Activities

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 49,390,278	—	—	49,390,278
Less student aid	(16,180,166)	—	—	(16,180,166)
Tuition and fees, net	33,210,112	—	—	33,210,112
Government grants and contracts	562,582	5,833,460	—	6,396,042
Private gifts and grants	2,663,993	9,985,430	—	12,649,423
Investment income (note 3)	15,758	398	—	16,156
Realized and unrealized gains on investments, net (note 3)	2,419	—	—	2,419
Endowment spending in accordance with College's spending rule (notes 3 and 4)	4,742,754	13,111,976	—	17,854,730
Sales and services of auxiliary enterprises	20,196,687	—	—	20,196,687
Other	964,918	—	—	964,918
Net assets released from restrictions (note 8)	27,155,500	(27,155,500)	—	—
Total operating revenues	<u>89,514,723</u>	<u>1,775,764</u>	<u>—</u>	<u>91,290,487</u>
Operating expenses (note 11):				
Instruction	25,805,626	—	—	25,805,626
Research	3,619,305	—	—	3,619,305
Public service	376,695	—	—	376,695
Academic support	7,858,306	—	—	7,858,306
Student services	11,210,233	—	—	11,210,233
Institutional support	22,095,046	—	—	22,095,046
Auxiliary enterprises	13,586,487	—	—	13,586,487
Total operating expenses	<u>84,551,698</u>	<u>—</u>	<u>—</u>	<u>84,551,698</u>
Change in net assets from operating activities	<u>4,963,025</u>	<u>1,775,764</u>	<u>—</u>	<u>6,738,789</u>
Nonoperating activities:				
Contributions	—	5,072,690	2,010,658	7,083,348
Investment income (note 3)	710,160	3,714,081	—	4,424,241
Change in present value of split interest agreements	—	(13,114)	—	(13,114)
Realized and unrealized gains on investments, net (note 3)	12,315,630	39,984,175	—	52,299,805
Endowment spending in accordance with College's spending rule (notes 3 and 4)	(4,742,754)	(13,111,976)	—	(17,854,730)
Net assets released from restriction for construction (note 8)	2,752,358	(2,752,358)	—	—
Capital campaign expenditures	(1,814,731)	—	—	(1,814,731)
Other nonoperating expenses	(14)	(2)	—	(16)
Change in net assets from nonoperating activities	<u>9,220,649</u>	<u>32,893,496</u>	<u>2,010,658</u>	<u>44,124,803</u>
Change in net assets	14,183,674	34,669,260	2,010,658	50,863,592
Net assets at beginning of year	<u>113,645,211</u>	<u>180,780,398</u>	<u>118,775,976</u>	<u>413,201,585</u>
Net assets at end of year	<u>\$ 127,828,885</u>	<u>215,449,658</u>	<u>120,786,634</u>	<u>464,065,177</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Change in net assets	\$ (4,840,790)	50,863,592
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,848,277	5,213,946
Amortization of bond issuance costs	83,737	81,897
Amortization of bond premium	(561,592)	(548,099)
Loss on early extinguishment debt	3,789,655	—
In-kind contribution of property and other	(264,783)	(82,007)
Net realized and unrealized gains on investments	(13,501,344)	(52,302,224)
Private gifts and grants restricted for long-term investment	(10,785,600)	(8,025,088)
Decrease (increase) in student accounts receivable	333,013	(82,808)
Increase in grants and other receivables	(369,437)	(2,106)
Decrease in contributions receivable, net	7,571,748	941,738
Decrease (increase) in other assets	255,710	(235,419)
Increase in accounts payable and accrued expenses, and accrued compensation and related expenses	1,103,676	694,935
Increase in deferred revenue	281,858	212,689
	<u>(12,055,872)</u>	<u>(3,268,954)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases and acquisitions of property and equipment	(14,560,477)	(4,182,137)
Proceeds from disposal and retirements of property and equipment	6,776	76,051
Loans advanced to students, net	27,801	(27,510)
Proceeds from sales of investments	95,754,926	114,467,156
Purchases of investments	(74,203,290)	(102,030,253)
	<u>7,025,736</u>	<u>8,303,307</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Principal repayments on bonds and notes payable	(63,691,476)	(3,878,610)
Repayment of endowed gift	(4,000,000)	—
Principal repayments under capital lease obligations	(50,890)	(84,872)
Proceeds from issuance of bonds payable	60,338,402	—
Payments for bond issuance costs	(655,536)	—
Increase in advances from federal government	17,420	10,789
Proceeds from private gifts and grants restricted for long-term investment	10,785,600	8,025,088
	<u>2,743,520</u>	<u>4,072,395</u>
Net cash provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(2,286,616)	9,106,748
Cash and cash equivalents at beginning of year	<u>23,318,260</u>	<u>14,211,512</u>
Cash and cash equivalents at end of year	<u>\$ 21,031,644</u>	<u>23,318,260</u>
Supplemental disclosures:		
Cash paid for interest	\$ 2,960,799	3,623,785
In-kind gift – property and other	264,783	82,007

See accompanying notes to financial statements.

## SPELMAN COLLEGE

### Notes to Financial Statements

June 30, 2015 and 2014

#### (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 revenues, 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, 2015 and 2014

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 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, 2015, 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, 2015 and 2014

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 Spelman 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, 2015 and 2014.

**(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, 2015 and 2014

**(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 asset retirement obligations 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 asset retirement obligations for the years ended June 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Balance at beginning of year	\$ 1,555,135	2,503,966
Accretion expense	64,535	61,960
Retirements	—	(681,088)
Change in estimated cash flows	—	(329,703)
Balance at end of year	\$ 1,619,670	1,555,135

**(l) Recently Implemented Accounting Standards**

In April 2015, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). This ASU requires that debt issuance costs related to debt shall be reported in the statement of financial position as a direct deduction from the face amount of

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Notes to Financial Statements

June 30, 2015 and 2014

that debt, which is consistent with the presentation of debt discounts. In fiscal 2015, the College elected to early adopt the provisions of ASU 2015-03 and applied retrospective application to all prior periods presented in the accompanying financial statements and notes the financial statements (note 6).

In May 2015, FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07). This ASU eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at NAV per share (or its equivalent) using the practical expedient as discussed in FASB Subtopic 820-10. In fiscal 2015, the College elected to early adopt the provisions of ASU 2015-07 and applied retrospective application to all prior periods presented in the notes to the financial statements (note 10).

**(2) Contributions Receivable, Net**

Contributions receivable as of June 30, 2015 and 2014 are summarized as follows:

	<b>2015</b>	<b>2014</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 5,286,520	8,967,511
One year to five years	3,275,202	7,373,964
Greater than 5 years	21,097	127,367
	8,582,819	16,468,842
Less allowance for uncollectible contributions	309,148	463,450
Less unamortized discount	798,728	958,701
	<b>\$ 7,474,943</b>	<b>15,046,691</b>

Contributions are discounted at rates ranging from 3.02% to 9.84% for the years ended June 30, 2015 and 2014, 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. The College's allowance for uncollectible contributions is estimated by using past collection history as an indication of future collections. At June 30, 2015 and 2014, the College's two largest outstanding donor pledge balances represented 36% and 55%, respectively, of the College's gross contributions receivable.

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Notes to Financial Statements

June 30, 2015 and 2014

**(3) Investments**

The fair value of investments is summarized as follows at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>2015 Unfunded capital commitments</u>	<u>2014 Unfunded capital commitments</u>
Short-term investments	\$ 10,082,161	4,433,632	—	—
U.S. equity	45,426,242	51,437,468	—	—
Non-U.S. equity:				
Developed markets	23,462,480	18,547,756	—	—
Emerging markets	16,500,118	19,480,922	—	—
	<u>39,962,598</u>	<u>38,028,678</u>	<u>—</u>	<u>—</u>
Marketable alternatives	81,750,899	58,101,546	—	—
Real assets:				
Natural resources	7,466,615	9,061,459	3,960,170	4,700,671
Real estate	20,817,315	30,945,709	248,373	1,983,645
	<u>28,283,930</u>	<u>40,007,168</u>	<u>4,208,543</u>	<u>6,684,316</u>
Private equity:				
Private and venture capital	122,919,720	131,883,238	31,616,130	33,669,564
Distressed	12,418,879	11,590,158	7,142,800	6,727,513
	<u>135,338,599</u>	<u>143,473,396</u>	<u>38,758,930</u>	<u>40,397,077</u>
Fixed income	<u>22,141,976</u>	<u>31,554,809</u>	<u>4,170,691</u>	<u>3,684,763</u>
Total investments, at fair value	<u>\$ 362,986,405</u>	<u>367,036,697</u>	<u>47,138,164</u>	<u>50,766,156</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, 2015 and 2014

The following is a summary of the liquidation terms of investments as of June 30, 2015 and 2014:

	<b>2015</b>							<b>Day(s) notice</b>
	<b>Redemption period</b>							
	<b>Daily</b>	<b>Monthly</b>	<b>Quarterly</b>	<b>Semi- annually</b>	<b>Annually</b>	<b>Illiquid</b>	<b>Total</b>	
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
<b>Total</b>	<b>\$ 48,273,386</b>	<b>40,324,385</b>	<b>43,077,525</b>	<b>11,426,866</b>	<b>33,944,571</b>	<b>185,939,672</b>	<b>362,986,405</b>	

  

	<b>2014</b>							<b>Day(s) notice</b>
	<b>Redemption period</b>							
	<b>Daily</b>	<b>Monthly</b>	<b>Quarterly</b>	<b>Semi- annually</b>	<b>Annually</b>	<b>Illiquid</b>	<b>Total</b>	
Short-term investments (a)	\$ 4,433,632	—	—	—	—	—	4,433,632	1
U.S. equity (b)	30,046,034	429,041	20,962,393	—	—	—	51,437,468	1–90
Non-U.S. equity (b)	910,132	20,469,035	4,414,677	—	12,234,834	—	38,028,678	60–120
Marketable alternatives (c)	7,288,703	—	6,061,193	6,433,739	26,020,166	12,297,745	58,101,546	30–90
Real assets (d)	—	—	—	—	1,742,250	38,264,918	40,007,168	5–90
Private equity (e)	—	—	—	—	—	143,473,396	143,473,396	—
Fixed income (f)	12,099,188	7,438,900	7,317,268	—	—	4,699,453	31,554,809	3–90
<b>Total</b>	<b>\$ 54,777,689</b>	<b>28,336,976</b>	<b>38,755,531</b>	<b>6,433,739</b>	<b>39,997,250</b>	<b>198,735,512</b>	<b>367,036,697</b>	

- (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 53% of these investments are in U.S. companies and 47% 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, multi-family, 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 to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the manager.

## SPELMAN COLLEGE

### Notes to Financial Statements

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- (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, 2015 and 2014, the College has approximately \$295,000,000 and \$292,000,000, 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, 2015 and 2014, the College did not have any investments with redemption lock up provisions.

The College's investment return for the years ended June 30, 2015 and 2014 is as follows:

	<b>2015</b>	<b>2014</b>
Operating realized and unrealized gains on investments	\$ 106,137	2,419
Nonoperating realized and unrealized gains on investments	13,395,255	52,299,805
Total realized and unrealized gains on investments	13,501,392	52,302,224
Operating investment income	14,840	16,156
Nonoperating investment income	3,689,389	4,424,241
Total investment income	3,704,229	4,440,397
Total investment return	17,205,621	56,742,621
Investment return designated for current operations and endowment spending:		
Operating endowment spending	18,019,451	17,854,730
Nonoperating endowment spending	13,414	13,365
	18,032,865	17,868,095
Investment return (less than) in excess of amounts designated for current operations and endowment spending	\$ (827,244)	38,874,526

Investment management fees approximated \$2,030,000 and \$2,053,000 for the years ended June 30, 2015 and 2014, respectively.

## SPELMAN COLLEGE

### Notes to Financial Statements

June 30, 2015 and 2014

#### (4) Endowment Net Assets

The College's endowment consists of 293 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, 2015 and 2014

Endowment net assets consisted of the following at June 30, 2015 and 2014:

		<b>2015</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$	(178,873)	183,169,467	119,813,916	302,804,510
Board-designated endowment funds		<u>62,224,825</u>	—	—	<u>62,224,825</u>
Total endowed net assets	\$	<u>62,045,952</u>	<u>183,169,467</u>	<u>119,813,916</u>	<u>365,029,335</u>
		<b>2014</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$	(147,271)	186,766,583	120,786,634	307,405,946
Board-designated endowment funds		<u>61,242,527</u>	—	—	<u>61,242,527</u>
Total endowed net assets	\$	<u>61,095,256</u>	<u>186,766,583</u>	<u>120,786,634</u>	<u>368,648,473</u>



**SPELMAN COLLEGE**

Notes to Financial Statements

June 30, 2015 and 2014

Changes in endowment net assets for the years ended June 30, 2015 and 2014 were as follows:

	<b>2015</b>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>7,027,611</u>	<u>6,367,644</u>	<u>—</u>	<u>13,395,255</u>
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	<u>—</u>	<u>1,922</u>	<u>—</u>	<u>1,922</u>
Endowment net asset, June 30, 2015	<u>\$ 62,045,952</u>	<u>183,169,467</u>	<u>119,813,916</u>	<u>365,029,335</u>

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Notes to Financial Statements

June 30, 2015 and 2014

	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	\$ 53,751,963	156,251,858	118,775,976	328,779,797
Investment return:				
Investment income	710,160	3,714,081	—	4,424,241
Net appreciation	12,315,630	39,984,175	—	52,299,805
Total investment return	13,025,790	43,698,256	—	56,724,046
Contributions	—	—	2,010,658	2,010,658
Appropriation of endowment assets for:				
Operations	(2,937,580)	(13,125,341)	—	(16,062,921)
Support of the College's investments office	(1,805,174)	—	—	(1,805,174)
Appropriation of endowment assets for campaign support	(1,814,731)	(35,855)	—	(1,850,586)
Transfer to board designated funds	874,988	—	—	874,988
Transfer of annuity funds, net	—	(22,335)	—	(22,335)
Endowment net asset, June 30, 2014	\$ 61,095,256	186,766,583	120,786,634	368,648,473

**(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 \$178,873 and \$147,271 as of June 30, 2015 and 2014, 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.

**(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

## SPELMAN COLLEGE

### Notes to Financial Statements

June 30, 2015 and 2014

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 5.10% 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 0.47% of the fair value of the endowment as of the beginning of the year for each of the years ended June 30, 2015 and 2014 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, 2015 and 2014, calculated as a percentage of the fair value of the endowment as of the beginning of the year, was approximately 5.40% and 5.50%, respectively.

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**(5) Property and Equipment**

Property and equipment as of June 30, 2015 and 2014 consist of the following:

	<b>2015</b>	<b>2014</b>
Land	\$ 14,687,723	14,687,723
Land improvements	21,654,216	21,654,216
Buildings	187,915,103	187,915,103
Furniture and equipment	27,677,019	27,273,929
Robert W. Woodruff Library at the Atlanta University Center Consortium, Inc.	547,000	547,000
Construction in progress	18,873,766	4,785,036
	271,354,827	256,863,007
Less accumulated depreciation	103,014,081	98,227,685
	\$ 168,340,746	158,635,322

Depreciation expense totaled \$4,848,277 and \$5,213,946 in 2015 and 2014, respectively.

**(6) Bonds and Note Payable**

Bonds and note payable as of June 30, 2015 and 2014 consist of the following:

	<b>Interest rates</b>	<b>Maturity (serially)</b>	<b>Original issue</b>	<b>Outstanding as of June 30</b>	
				<b>2015</b>	<b>2014</b>
Private Colleges and Universities:					
Authority Revenue Bonds –					
2003 Series	2.00%–5.25%	2022	\$ 29,780,000	\$ 3,820,000	4,240,000
Development Authority of					
Fulton County:					
Adjustable rate demand:					
Revenue Bonds of 1996	1.80%	2016	3,000,000	300,000	500,000
Revenue Bonds of 1999	1.80%	2019	8,000,000	4,100,000	4,600,000
Fixed rate:					
Revenue Bonds of 2007	3.75%–5.00%	2017	34,760,000	1,050,000	26,620,000
Revenue Bonds of 2007	5.00%	2017	28,745,000	—	28,745,000
Revenue Bonds of 2012	2.00%–5.00%	2029	25,145,000	19,940,000	22,120,000
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	52,080,000	—
				82,015,000	87,550,000

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	<b>Interest rates</b>	<b>Maturity (serially)</b>	<b>Original issue</b>	<b>Outstanding as of June 30</b>	
				<b>2015</b>	<b>2014</b>
Unamortized premium				\$ 9,420,331	4,294,346
Bond issuance costs				(1,132,967)	(1,058,781)
Total bonds payable, net				90,302,364	90,785,565
2011 note payable to equipment supplier	N/A	2016	N/A	427,220	640,829
Total bonds and note payable				\$ 90,729,584	91,426,394

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.

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.

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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 \$427,220 and \$640,829 at June 30, 2015 and 2014, respectively. The note matures on September 16, 2016.

The maturity schedule for bonds and notes payable as of June 30, 2015 is as follows:

	Year ending June 30						Total
	2016	2017	2018	2019	2020	Thereafter	
Revenue Bonds of 1996	\$ 300,000	—	—	—	—	—	300,000
Revenue Bonds of 1999	500,000	900,000	900,000	900,000	900,000	—	4,100,000
Revenue Bonds of 2003	425,000	500,000	520,000	555,000	585,000	1,235,000	3,820,000
Revenue Bonds of 2007	515,000	535,000	—	—	—	—	1,050,000
Revenue Bonds of 2012	2,175,000	2,415,000	2,510,000	2,590,000	2,685,000	8,290,000	20,665,000
Revenue Bonds of 2015 2011 note	— 213,610	— 213,610	—	—	—	52,080,000	52,080,000
	<u>\$ 4,128,610</u>	<u>4,563,610</u>	<u>3,930,000</u>	<u>4,045,000</u>	<u>4,170,000</u>	<u>61,605,000</u>	82,442,220
Unamortized premium							9,420,331
Unamortized bond issuance costs							(1,132,967)
							<u>\$ 90,729,584</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, 2015.

The following financial statement line items for fiscal 2014 were affected by the implementation of ASU 2015-03 (note 1(I)):

	As originally reported	As adjusted	Effect of change
Statement of financial position:			
Bond issuance costs	\$ 1,058,781	—	(1,058,781)
Bonds and note payable, net	92,485,175	91,426,394	(1,058,781)

**(7) Interest Expense**

Interest expense related to bonds and note payable and the obligation under capital lease approximated \$2,399,000 and \$3,623,000 for the years ended June 30, 2015 and 2014, respectively.

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Notes to Financial Statements

June 30, 2015 and 2014

**(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, 2015 and 2014 as follows:

	<b>2015</b>	<b>2014</b>
Operating:		
Scholarships and fellowships	\$ 13,292,913	12,912,023
Instruction	5,557,414	6,133,002
Research	2,334,335	2,256,789
Public service	198,297	210,814
Academic support	947,678	970,742
Student services	889,032	988,772
Institutional support	712,855	738,239
Auxiliary enterprises	32,915	21,328
Other	3,079,413	2,923,791
	27,044,852	27,155,500
Nonoperating:		
Construction	13,493,873	2,752,358
	\$ 40,538,725	29,907,858

**(9) Net Assets**

Temporarily restricted net assets as of June 30, 2015 and 2014 were available for the following purposes:

	<b>2015</b>	<b>2014</b>
Scholarships and fellowships	\$ 95,861,360	95,286,045
Programs and other operating purposes	99,229,412	103,324,208
Purchase of property and equipment	3,532,102	16,839,405
	\$ 198,622,874	215,449,658

Permanently restricted net assets totaling \$119,813,916 and \$120,786,634 as of June 30, 2015 and 2014, 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.

**(10) Fair Value**

The College's estimates of fair value for financial assets and liabilities are based on the framework established in Accounting Standards Codification (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

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### Notes to Financial Statements

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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, 2015 and 2014, the College has approximately \$16,942,000 and \$22,885,000, 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.

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



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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 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 consolidated 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, 2015 and 2014:

		<b>June 30, 2015</b>				
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
<b>Recurring:</b>						
<b>Assets:</b>						
Cash and cash equivalents	\$	21,031,644	—	—	—	21,031,644
<b>Investments:</b>						
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		50,804,534	—	16,941,809	295,240,062	362,986,405
	\$	71,836,178	—	16,941,809	295,240,062	384,018,049
<b>Disclosure:</b>						
Bonds and note payable	\$	—	84,400,000	—	—	84,400,000

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		<b>June 30, 2014</b>				
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
<b>Recurring:</b>						
<b>Assets:</b>						
Cash and cash equivalents	\$	23,318,260	—	—	—	23,318,260
<b>Investments:</b>						
Short-term investments		4,433,632	—	—	—	4,433,632
U.S. equity		30,475,075	—	—	20,962,393	51,437,468
Non-U.S. equity		910,132	—	—	37,118,546	38,028,678
Marketable alternatives		7,288,703	—	—	50,812,843	58,101,546
Real assets		—	—	22,884,768	17,122,400	40,007,168
Private equity		—	—	—	143,473,396	143,473,396
Fixed income		8,628,482	—	—	22,926,327	31,554,809
Total investments		<u>51,736,024</u>	<u>—</u>	<u>22,884,768</u>	<u>292,415,905</u>	<u>367,036,697</u>
	\$	<u>75,054,284</u>	<u>—</u>	<u>22,884,768</u>	<u>292,415,905</u>	<u>390,354,957</u>
<b>Disclosure:</b>						
Bonds and note payable	\$	—	92,300,000	—	—	92,300,000

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, 2015 and 2014 were approximately \$1,200,000 and \$3,100,000, 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.

The carrying amount of bonds payable with variable interest rates approximates fair value because the variable rates reflect current market rates for bonds with similar maturities and credit quality. The fair value of bonds and note payable with fixed interest rates is based on rates assumed to be currently available for bond issues and notes with similar terms and average maturities.

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The following tables present additional information about Level 3 assets 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.

<b>Level 3 rollforward</b>	<b>Real assets</b>		
Fair value at June 30, 2013	\$ 21,898,953		
Acquisitions	1,688,662		
Dispositions	(1,350,285)		
Net realized and unrealized gains	647,438		
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		
		<b>2015</b>	<b>2014</b>
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) relating to those investments still held at June 30	\$ (9,655,726)		(2,721,822)

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 2015 and 2014, there were no transfers into or out of Levels 1 or 2.

**(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 \$3,900,000 and \$3,950,000 for the years ended June 30, 2015 and 2014, respectively.

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Operating expenses classified by natural type for the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 36,903,055	35,744,487
Fringe benefits	10,147,363	9,439,570
Depreciation	4,848,277	5,213,946
Interest on indebtedness	2,399,207	3,622,756
Other expenses	<u>33,727,400</u>	<u>30,530,939</u>
Total operating expenses	\$ <u>88,025,302</u>	<u>84,551,698</u>

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 table reports the amount of these expenses included in the accompanying statements of activities for the years ended June 30, 2015 and 2014:

<u>Functional category</u>	<u>2015</u>				
	<u>Direct expenses</u>	<u>Operation and maintenance of plant</u>	<u>Interest</u>	<u>Depreciation</u>	<u>Total expenses</u>
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	<u>11,489,207</u>	<u>303,897</u>	<u>1,352,599</u>	<u>1,322,632</u>	<u>14,468,335</u>
	\$ <u>73,877,820</u>	<u>6,899,998</u>	<u>2,399,207</u>	<u>4,848,277</u>	<u>88,025,302</u>

  

<u>Functional category</u>	<u>2014</u>				
	<u>Direct expenses</u>	<u>Operation and maintenance of plant</u>	<u>Interest</u>	<u>Depreciation</u>	<u>Total expenses</u>
Instruction	\$ 21,389,486	3,387,123	—	1,029,017	25,805,626
Research	3,244,120	—	—	375,185	3,619,305
Public service	376,695	—	—	—	376,695
Academic support	7,163,935	288,955	—	405,416	7,858,306
Student services	8,232,188	1,304,701	—	1,673,344	11,210,233
Institutional support	19,119,327	1,339,119	1,277,510	359,090	22,095,046
Auxiliary enterprises	<u>9,572,142</u>	<u>297,205</u>	<u>2,345,246</u>	<u>1,371,894</u>	<u>13,586,487</u>
	\$ <u>69,097,893</u>	<u>6,617,103</u>	<u>3,622,756</u>	<u>5,213,946</u>	<u>84,551,698</u>

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**(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 \$1,613,000 and \$1,658,000 for the years ended June 30, 2015 and 2014, 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, 2015.

**(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:

2016	\$	920,000
2017		903,000
2018		843,000
2019		208,000
2020		94,000
		<hr/>
	\$	<u>2,968,000</u>

Rent expense related to noncancelable operating leases with terms in excess of one year approximated \$550,000 and \$505,000 for the years ended June 30, 2015 and 2014, respectively.

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**(d) Capital Leases**

Assets leased by the College under capital leases at June 30, 2015 and 2014 consist of the following:

	<b>2015</b>	<b>2014</b>
Telephone equipment	\$ —	350,684
Less accumulated amortization	—	(315,616)
	\$ —	35,068

**(14) Subsequent Events**

The College evaluated subsequent events from the financial reporting date of June 30, 2015 through October 19, 2015, 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.