# SWARTHMORE COLLEGE FINANCIAL REPORT 2011–12

SWARTHMORE

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SWARTHMORE COLLEGE • 500 COLLEGE AVENUE • SWARTHMORE, PA 19081
www.swarthmore.edu

# FINANCIAL REPORT 2011–12

The fiscal year that ended June 30, 2012, was marked by stability and continued progress in moving forward from the Great Recession and downturn in the financial markets and developing a vision for Swarthmore's future. This was the third year of budgets developed in response to the economic downturn. The budget plan adopted by the Board of Managers in December 2009 outlined a five-year plan of both permanent and temporary budget measures. Because of prudent financial and investment policies, the College was better positioned than many peer institutions to weather this difficult period. The budget plan avoided reductions to core programs, preserved financial aid, and did not include any layoffs of faculty or staff. Subsequently, the endowment recovered to a new fiscal year-end peak last year (June 30, 2011) and, though down slightly to $1.499 billion at June 30, 2012, is generally maintaining its recovery. As hoped for, the College is now in a position to restore temporary reductions in facilities capital spending. In fact, an ambitious schedule of capital projects resumed in 2012.

In December 2011, the Board of Managers approved *Strategic Directions* for Swarthmore College, which outlines a vision and initiatives for the next decade. The plan is a result of a comprehensive and collaborative effort spanning two years and involving faculty, staff, students, alumni, and Board members. The plan reaffirms Swarthmore's commitment to the following principles:

- A singular commitment to academic rigor and creativity
- A desire to provide access and opportunity for all students, regardless of their financial circumstances
- A diverse, inclusive, and vibrant community of students, faculty, staff, and alumni
- A conviction that applied knowledge should be used to improve the world

The strategic plan outlines many initiatives to be implemented in the coming years. A capital campaign is in its early stages, and the College hopes to launch the public phase to coincide with the College's sesquicentennial in 2014.

This report presents the financial results of the 2011–12 fiscal year in detail. Longer-term statistical information is presented in Chart 1, and the audited financial statements appear following this report. This past year, the name of the Audit Committee of the Board of Managers was changed to the Audit and Risk Management Committee, formalizing the responsibility of this committee for broad– not just financial– oversight of risk management throughout the College.

## RESULTS OF THE 2011–12 FISCAL YEAR

Swarthmore College's financial position remained strong at June 30, 2012. Although net assets of the College were slightly lower than the prior year due to a $9.7 million decline in the value of the endowment to $1.499 billion at June 30, 2012, the endowment generated a positive 2.2 percent investment return and remained above its pre-downturn peak. The value declined slightly because endowment spending for the budget exceeded the investment return and new gifts to the endowment.

Annual expenses for the year increased 2.2 percent to $124.3 million. This amounted to $81,902 per student, as shown in Chart 2. Every full-pay student at

# CHART 1
## STATISTICAL REVIEW OF SWARTHMORE COLLEGE
(for years ended June 30)

| | 1970 | 1980 | 1990 | 2000 | 2010 | 2012 |
|---|---|---|---|---|---|---|
| **STUDENT CHARGES** | | | | | | |
| Average on-campus enrollment | 1,097 | 1,298 | 1,281 | 1,356 | 1,414 | 1,436 |
| Average foreign-study enrollment[1] | | | | 80 | 73 | 82 |
| Comprehensive charges ($) | 3,435 | 7,080 | 19,450 | 31,690 | 49,600 | 53,250 |
| Total expenditures and mandatory transfers, including financial aid ($000) | 7,160 | 14,891 | 46,537 | 92,721 | 143,249 | 152,361 |
| Per student ($) | 6,527 | 11,472 | 36,329 | 64,569 | 96,334 | 100,370 |
| Per student, excluding financial aid ($) | 5,983 | 10,330 | 31,795 | 55,718 | 79,961 | 81,902 |
| Student charges as percentage of budget/student, excluding financial aid | 57 | 69 | 61 | 57 | 62 | 65 |
| **ADMISSIONS DATA** | | | | | | |
| Applications completed | 2,332 | 1,866 | 3,233 | 3,956 | 6,041 | 6,589 |
| Percentage accepted | 23 | 40 | 32 | 24 | 16 | 14 |
| Percentage enrolled (of those accepted) | 57 | 44 | 34 | 39 | 40 | 40 |
| **FINANCIAL AID DATA** | | | | | | |
| Percentage of students receiving need-based Swarthmore scholarships | 36 | 39 | 45 | 51 | 51 | 53 |
| Average Swarthmore scholarship ($) | 1,504 | 2,478 | 8,661 | 17,070 | 30,865 | 33,338 |
| Average Swarthmore scholarship as percentage of charges | 44 | 35 | 45 | 54 | 62 | 63 |
| Average financial need ($) | N/A | 4,108 | 12,580 | 22,922 | 34,973 | 37,387 |
| Average Swarthmore scholarship as percentage of average need | N/A | 60 | 69 | 74 | 88 | 89 |
| **GIFTS AND GRANTS RECEIVED**[2] | | | | | | |
| Annual giving ($000) | 361 | 1,000 | 2,035 | 3,439 | 4,704[4] | 4,594[4] |
| Other gifts and bequests ($000) | 1,076 | 4,259 | 9,982 | 14,656 | 10,076 | 17,449 |
| Government grants ($000) | 321 | 1,493 | 2,092 | 2,014 | 1,471 | 1,991 |
| Total ($000) | 1,758 | 6,752 | 14,109 | 20,109 | 16,251 | 24,034 |
| Annual Fund participation (%) | 42.2 | 48.5 | 58.5 | 55.3 | 55.4 | 53.1 |
| **ENDOWMENT** | | | | | | |
| Original value ($000) | 17,982 | 26,559 | 80,649 | 155,070 | 366,331 | 379,201 |
| Market value ($000) | 48,514 | 91,557 | 336,224 | 963,676 | 1,249,254 | 1,498,775 |
| Unit market value ($)[3] | 37.29 | 61.50 | 181.75 | 473.10 | 528.20 | 628.49 |
| Distribution/unit ($) | 1.41 | 2.20 | 6.44 | 14.77 | 20.10 | 21.09 |
| **DEBT OUTSTANDING ($000)** | 0 | 0 | 37,215 | 78,632 | 176,991 | 212,864 |

[1] Reflects a change in payment and accounting procedures
[2] Gift total may differ from those reported in the audited financial statements, primarily due to treatment of pledges received.
[3] Primary pool
[4] Reflects a change in classification of certain unrestricted gifts and bequests.

Swarthmore received a "scholarship" of $28,652, the cost per student in excess of student charges (tuition, fee, room, and board). In 2011–12, philanthropy provided 45 percent of the costs of a Swarthmore education while net student revenues provided 42 percent.

**STUDENT REVENUES: ENROLLMENT, STUDENT FEES, AND FINANCIAL AID**

On-campus enrollment was 1,436 last year, and there was an average of an additional 82 students in foreign study each semester. Student charges (tuition, fee, room, and board) were $53,250, an increase of 3.4 percent from the prior year.

Total scholarships funded by the College (excluding grants from other sources) were $28.0 million, an increase of 7.8 percent from 2010–11. The increase in scholarships was due to both an unanticipated increase in enrollment and in the percentage of students aided (54 percent compared with 52 percent in the prior year) and an increase in the average scholarship per needy student ($33,338, an increase of 4.4 percent from the prior year). The College's discount rate (scholarships as a percent of tuition and fee revenues) increased to 44 percent. A driver of the increase in scholarships was the first year class with a record 57 percent of students qualifying for need-based aid. College scholarships continue to be one of the fastest-growing line items in the College budget. Although student charges continue to increase, net student revenues (cash collections net of scholarships) are increasing at a much lower rate, barely keeping up with cost pressures from expenses such as compensation.

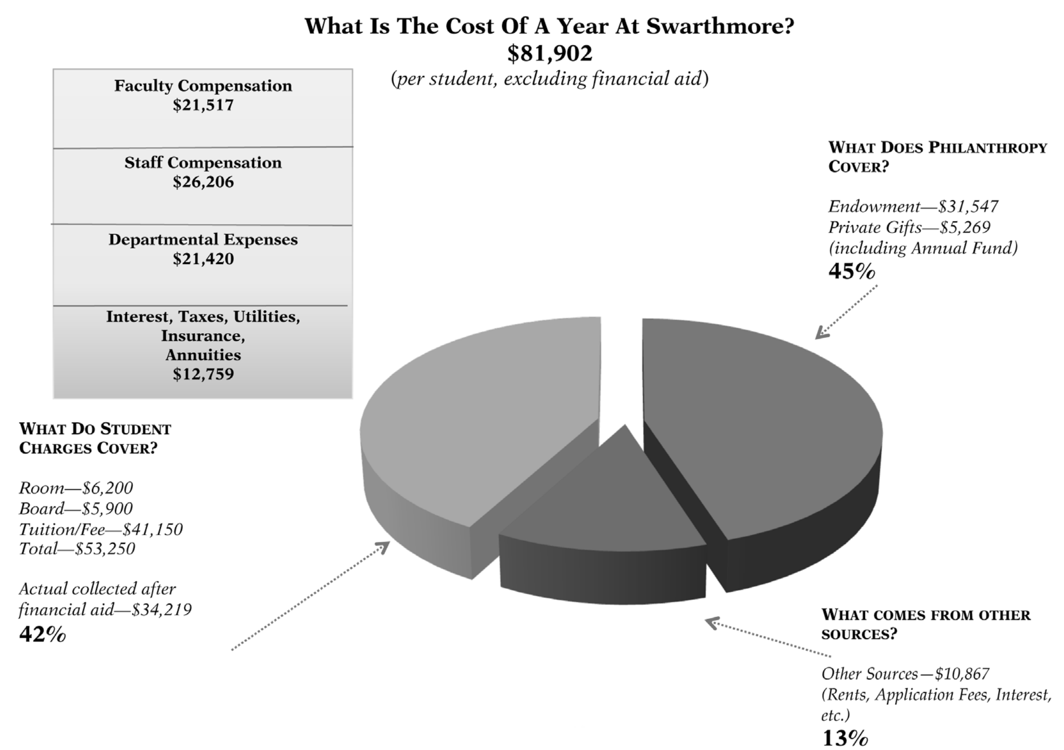
**ENDOWMENT SUPPORT**

The endowment support to the budget in 2011–12 was $47.9 million, an increase of $2.9 million from the year before. The endowment spending rate (endowment support as a percent of the beginning of the year endowment market value) dipped to 3.3 percent. This is near the low end of the target endowment spending range, but is expected to return to near the middle of the range in 2012–13 when facilities capital spending is restored. Chart 3 shows a history of endowment spending and the spending rate.

**GIFTS**

The College received $24.0 million in gifts and grants in 2011–12 compared to $18.2 million received the prior year. An increase of $3.5 million for a facilities project and $1.5 million in gifts of deferred

CHART 2
FINANCING A SWARTHMORE EDUCATION 2011-12



assets made the largest contributions to the higher figure. Outright gifts and new pledges from private sources totaled $20.0 million, while the College recognized an additional $1.4 million in outright gifts and new pledges from government grants.

Current unrestricted gifts increased by $0.6 million from the previous year to $6.6 million. The number of leadership donors (gifts of $1,864 and above) to the annual fund increased from 378 last year to 552 this year, yielding a larger average gift to the fund. One in four alumni donors increased their gift in 2011–12 from the prior year. For the first time in three years, however, the total number of alumni donors declined, resulting in a reduction in the annual fund of $0.3 million from the prior year. The alumni participation rate was 53.1 percent of alumni solicited. Gifts to the parents' fund (a part of the annual fund) increased by 7.5 percent during 2010–11. A special Board initiative added almost $1 million in current support.

Donors completed more than $3.6 million in life income gifts with the College in 2011–12, with many gift annuitants taking advantage of more favorable rates that expired in December 2011. Terminated life income gifts (after the death of the income recipient) provided the College with $5.5 million in restricted and unrestricted funds (not included in gift totals). In the past year the College enrolled 36 new members in the Legacy Circle, which recognizes donors who have included Swarthmore in their estate plans, including wills, trusts, charitable gift annuities, and other gifts that the College will realize in the future.

The Howard Hughes Medical Institute (HHMI) awarded the College a seventh consecutive four-year $1 million grant to support 20 student summer research fellowships a year, a mentoring program, and three curricular innovations. HHMI named Swarthmore a Capstone Awardee, a new category that recognizes long-time grantees who have developed mature and successful programs and who are expected to publish findings on key elements that have led to their success and to propose new ideas and strategies based on these findings.

Karl Clauss joined Swarthmore as vice president for development and alumni relations in March 2012. Throughout the year President Rebecca Chopp continued to visit with hundreds of Swarthmore alumni and parents and scores of leadership donors throughout the United States and Europe in anticipation of a comprehensive effort to secure philanthropic support for initiatives in the *Strategic Directions* report.

*Note: A total of $21.9 million in gifts and grants was recognized in the financial statements according to generally accepted accounting principles. The difference between this and the $24.0 million discussed above is related primarily to the accounting treatment of pledges and grants.*

## EXPENDITURES

The budget plan adopted by the Board of Managers in response to the economic crisis established constraints on College expenditures. The 2011–12 budget included essentially no significant new items. The increase in total expenditures of 2.2 percent to $124.3 million was driven by salary increases for faculty and staff and increased costs of health insurance premiums. Compensation for faculty and staff amounted to 58 percent of total expenditures. Non-compensation departmental budgets were increased only for unavoidable cost increases.

## FACILITIES CAPITAL SPENDING

The fiscal year that ended June 30, 2012, was the last of three years of reduced facilities capital spending. The 2012–13 budget includes a restoration of spending levels. As a result, several facilities initiatives got under way during the year. The College, informed by the *Strategic Directions* report, embarked on a campus master plan. Initially, this focused on a detailed look at the needs of the biology, engineering, and psychology departments. The plan will look more broadly at the whole campus next year and is expected to be completed by spring 2013.

The College began several deferred projects that were completed in fall 2012. The most significant of those are the restoration of the slate and metal roofs on the 130-year-old Parrish Hall and the complete renovation of the Worth Health Center. Work also continued to make the campus more accessible, and renovation of labs and collaborative work spaces in three of the academic buildings was completed.

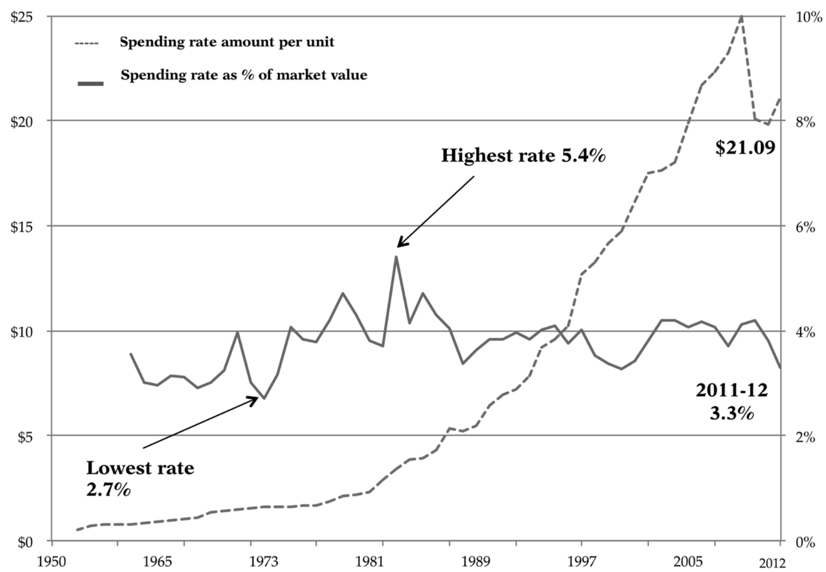
The Town Center West (TCW) project was another major effort. Architectural design work progressed, and the College embarked on the business arrangements for the development. TCW is a project guided by the Town Revitalization Plan of the Borough of Swarthmore and includes a small inn, a restaurant, and the College's bookstore. The development will provide a comfortable place for the College and the local community and strengthen the village downtown.

## TECHNOLOGY SPENDING

Technology capital funds were used in four general areas—the academic program, administrative information systems, network and telecommunications, and infrastructure and operations. The major academic enhancement was the continued installation of computer and video equipment in classrooms. Twenty-one classrooms and seminar rooms now have video capabilities, and more than half of all teaching spaces now have built-in computers. The implementation of a document-imaging system for admissions was completed. Application materials are now stored electronically, and the admissions staff has moved to a more efficient paperless system. Another administrative project was the development of electronic billing of student accounts. Students and their families have access to their bills electronically and can submit payments online.

Infrastructure projects to add and replace servers and increase storage were also completed, and projects continued to improve network and telecommunications services.

CHART 3
SWARTHMORE COLLEGE
DISTRIBUTION AMOUNT PER ENDOWMENT UNIT ($)
COMPARED WITH SPENDING RATE (%)




## ADMISSIONS

The College received a record 6,589 applications for the Class of 2016. Of these, 935 students were admitted with a selectivity ratio of 14 percent. The incoming first-year class had 378 students, reflecting a 40 percent yield. There were also 10 transfer students.

Median SAT scores were strong at 730 verbal, 720 math, and 730 writing, each out of a possible 800 total score. Students represented 22 countries and 42 of the 50 states. For the first time, the state with the largest representation was California with 51 students.

## ENDOWMENT

The market value of the endowment was $1.499 billion at June 30, 2012. The investment return for the fiscal year was 2.2 percent. Positive performance was achieved by the College's domestic equity managers and fixed income portfolios as well as the private equity and real asset allocations. The marketable alternatives program was flat for the fiscal year. The endowment was negatively impacted by the international equity allocation, which posted a loss driven in part by declines in emerging market stocks. Although the endowment declined $9.7 million from the prior year, it remained above its pre-downturn peak at June 30, 2007, of $1.441 billion. Many large endowments have not yet recovered to levels reached before the Great Recession.

The College's trailing multi-year returns also compared favorably with other endowments. For the past 10 years, the Standard & Poor's 500 Stock Index and the MSCI All Country Excluding U.S. Index have returned 5.8 percent and 7.2 percent annually, respectively, below their long-term trends. For the most part, the College's equity investment managers have performed better than their benchmark indexes. Endowment returns matched or exceeded their longer-term target returns for the past three and 10 years, but lagged the longer-term target returns over one and five years as shown in the table below:

| Period Ended June 30, 2012 | Ave. Annual Return | Ave. Annual Target Return* |
|---|---|---|
| 1-year | 2.2% | 7.4% |
| 3-year | 13.5% | 7.8% |
| 5-year | 4.0% | 7.7% |
| 10-year | 8.4% | 8.2% |

**Inflation plus a 5.75% real return.*

The endowment asset allocation is shown in Charts 4 and 5. As of the fiscal year-end, the endowment was close to the target asset allocation. No significant changes to this allocation are anticipated at this time. Despite the increasing allocations to the "alternative" asset classes of private equity, real assets, and marketable alternatives, the endowment has maintained a high level of liquidity. As of June 30, 2012, about $697 million (unaudited) of investments could be converted to cash within 30 days. The College has developed detailed models of cash needs for the budget and capital calls for private investments and monitors liquidity on an ongoing basis. The College's more liquid profile relative to other endowments has enabled it to take advantage of some promising investment opportunities during the past several years.

## CHART 4
## SWARTHMORE COLLEGE ENDOWMENT ASSET ALLOCATION
June 30, 2012

| | Percent of Total | Long-Term Target |
|---|---|---|
| Domestic Equity | 19.2% | 20.0% |
| International Equity | 19.0 | 20.0 |
| Marketable Alternatives | 14.3 | 14.0 |
| Private Equity | 22.8 | 17.0 |
| Real Assets | 9.2 | 14.0 |
| Total Equity & Alternatives | 84.5 | 85.0 |
| U.S. Bonds | 10.1 | 10.0 |
| Cash Equivalents | 5.4 | 5.0 |
| **Total Fund** | **100.0** | **100.0** |

## CHART 5
## SWARTHMORE COLLEGE ENDOWMENT HISTORY OF ASSET ALLOCATION

| | 1960 | 1970 | 1980 | 1990 | 2000 | 2010 | 2012 |
|---|---|---|---|---|---|---|---|
| Common Stocks | | | | | | | |
| Domestic Stocks (%) | 73 | 80 | 81 | 56 | 55 | 22 | 19 |
| International Stocks (%) | 0 | 0 | 0 | 13 | 20 | 19 | 19 |
| Private Equity (%) | 0 | 0 | 0 | 5 | 3 | 22 | 23 |
| Marketable Alternatives (%) | 0 | 0 | 0 | 3 | 3 | 15 | 14 |
| Real Assets (%) | 6 | 3 | 3 | 2 | 1 | 7 | 9 |
| Fixed Income/Cash (%) | 21 | 17 | 16 | 21 | 18 | 15 | 16 |
| | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

**DEBT**

In December 2011, the College issued $14.4 million par value in tax-exempt debt and $46.3 million par value in taxable debt. The proceeds were used to refinance a portion of the College's outstanding 2002 bonds and to fund various tax-exempt and taxable capital projects throughout the next few years. The Moody's and Standard & Poor's rating agencies reaffirmed the College's Aaa and AAA ratings, respectively. As of June 30, 2012, the College had $212.9 million in debt outstanding, an increase of $38.4 million from the prior year. Debt as a percent of the endowment was 14 percent, a level that compared favorably with many peer institutions.

**CONCLUSION**

Swarthmore College, in embarking on the implementation of *Strategic Directions*, remains confident in the unique strengths of liberal arts education in the 21st century and in the vision outlined in the plan. The College fully recognizes, however, the challenges to the sustainability of its financial model. The global economic environment is unlikely to provide robust endowment returns, a worrisome assumption for institutions like Swarthmore with high budget dependence on endowment spending. Likewise, demographic and economic factors indicate that financial aid needs will continue to increase. Cost pressures, particularly related to providing competitive salaries and benefits for faculty and staff, will continue to be a challenge.

The College is committed to financial sustainability for the future. Balanced budgets and preservation of intergenerational equity are core financial principles. The implementation of *Strategic Directions* will be accompanied by frequent financial modeling and stress testing. Initiatives will be launched only when the financial resources are in place for them. The College will move carefully and deliberately in order to maintain its strong financial foundation.

Suzanne P. Welsh

Suzanne P. Welsh
*Vice President for Finance and Treasurer*

# MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

Swarthmore College is responsible for the preparation, integrity, and fair presentation of its published financial statements. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, as such include judgments and estimates of management. Swarthmore College also prepared the other information included in the 2011–12 Financial Report and is responsible for its accuracy and consistency with the financial statements.

Management is also responsible for establishing and maintaining effective internal control over financial reporting. The internal control system is augmented by written policies and procedures. The Audit and Risk Management Committee of the Board of Managers provides oversight to management's conduct of the financial reporting process.

Management believes that Swarthmore College maintained an effective internal control system over financial reporting, for the fiscal year ended June 30, 2012 and, further, that the financial statements fairly represent the financial condition of the College as of June 30, 2012, and the operating results and cash flows for the year ended June 30, 2012.

Suzanne P. Welsh

Suzanne P. Welsh
Vice President for Finance and Treasurer

Eileen E. Petula

Eileen E. Petula
Assistant Vice President for Finance and Controller

pwc

**Report of Independent Auditors**

The Board of Managers of
Swarthmore College:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Swarthmore College (the “College”) at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College’s management. Our responsible is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 21, 2012

**SWARTHMORE COLLEGE**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as of June 30, 2012 and 2011
(in thousands)

| ASSETS | 2012 | 2011 |
|---|---|---|
| Cash and cash equivalents | $ 32,265 | $ 32,433 |
| Accounts receivable, net | 2,397 | 1,227 |
| Prepaid expenses and inventories | 3,500 | 3,909 |
| Contributions receivable | 17,006 | 18,223 |
| Student loans receivable, net | 1,663 | 2,090 |
| Employee mortgages receivable | 12,817 | 14,081 |
| Assets restricted to investment in property and equipment | 17,319 | 37 |
| Property and equipment, net | 239,966 | 232,740 |
| Investments, at market | | |
| Endowment | 1,498,775 | 1,508,483 |
| Life income and annuity | 40,713 | 43,271 |
| Other | 39,267 | 12,037 |
| **Total assets** | **$ 1,905,688** | **$ 1,868,531** |
| **LIABILITIES** | | |
| Accrued compensation | $ 7,069 | $ 6,712 |
| Payables and other accruals | 8,813 | 5,662 |
| Student deposits | 2,239 | 2,222 |
| Deferred payments and other liabilities | 45,706 | 35,459 |
| Refundable government loan funds | 1,742 | 1,742 |
| Bonds and notes payable | 212,864 | 174,482 |
| **Total liabilities** | **278,433** | **226,279** |
| **NET ASSETS** | | |
| Unrestricted | $ 638,391 | $ 628,075 |
| Temporarily restricted | 802,184 | 834,746 |
| Permanently restricted | 186,680 | 179,431 |
| **Total net assets** | **1,627,255** | **1,642,252** |
| **Total liabilities and net assets** | **$ 1,905,688** | **$ 1,868,531** |

See accompanying notes to consolidated financial statements.

**SWARTHMORE COLLEGE**
CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended June 30, 2012
(in thousands)

| | Unrestricted | Restricted Temporarily | Restricted Permanently | Total 2012 |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Student tuition and fees | $ 63,713 | $ | $ | $ 63,713 |
| Room and board | 16,266 | | | 16,266 |
| Less student aid | (28,034) | | | (28,034) |
| Net student tuition and fees | 51,945 | - | - | 51,945 |
| Revenues from investments | | | | |
| Endowment spending distribution | 47,888 | 970 | | 48,858 |
| Other | 874 | | | 874 |
| Private gifts and grants | 7,998 | 1,770 | | 9,768 |
| Government grants | 464 | 1,509 | | 1,973 |
| Other additions | 7,856 | 1,040 | | 8,896 |
| Transfers among net asset classes | 691 | (691) | | - |
| Net assets released from restrictions | 6,467 | (6,467) | | - |
| **Total operating revenue** | **124,183** | **(1,869)** | **-** | **122,314** |
| **Operating expenses:** | | | | |
| Instruction | 46,115 | | | 46,115 |
| Academic support | 17,804 | | | 17,804 |
| Student services | 11,402 | | | 11,402 |
| Institutional support | 22,944 | | | 22,944 |
| Auxiliary activities | 21,029 | | | 21,029 |
| Research and public service | 5,033 | | | 5,033 |
| **Total operating expenses** | **124,327** | **-** | **-** | **124,327** |
| **Decrease in net assets from operating activities** | **(144)** | **(1,869)** | **-** | **(2,013)** |
| **Nonoperating activities:** | | | | |
| Net realized and unrealized gain on investments, net of endowment spending | 6,575 | (24,902) | | (18,327) |
| Private gifts and grants | 3,368 | 3,602 | 3,196 | 10,166 |
| Change in present value of life income funds | | (2,480) | | (2,480) |
| Maturities of annuity and life income funds | 2,088 | (4,144) | 2,056 | - |
| Change in other post retirement benefits | (3,260) | | | (3,260) |
| Loss on extinguishment of debt | (578) | | | (578) |
| Other | 529 | 948 | 18 | 1,495 |
| Transfers among net asset classes | 324 | (2,303) | 1,979 | - |
| Net assets released from restrictions | 1,414 | (1,414) | | - |
| **Increase/decrease in net assets from nonoperating activities** | **10,460** | **(30,693)** | **7,249** | **(12,984)** |
| **Net increase/decrease in net assets for the year** | **10,316** | **(32,562)** | **7,249** | **(14,997)** |
| **Net Assets, June 30, 2011** | **628,075** | **834,746** | **179,431** | **1,642,252** |
| **Net Assets, June 30, 2012** | **$ 638,391** | **$ 802,184** | **$ 186,680** | **$ 1,627,255** |

See accompanying notes to consolidated financial statements.

**SWARTHMORE COLLEGE**
CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended June 30, 2011
(in thousands)

| | Unrestricted | Restricted Temporarily | Restricted Permanently | Total 2011 |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Student tuition and fees | $ 60,666 | $ | $ | $ 60,666 |
| Room and board | 15,790 | | | 15,790 |
| Less student aid | (25,995) | | | (25,995) |
| Net student tuition and fees | 50,461 | - | - | 50,461 |
| Revenues from investments | | | | |
| Endowment spending distribution | 44,992 | 903 | | 45,895 |
| Other | 1,181 | | | 1,181 |
| Private gifts and grants | 6,401 | 3,789 | | 10,190 |
| Government grants | 471 | 1,458 | | 1,929 |
| Other additions | 7,205 | 974 | | 8,179 |
| Transfers among net asset classes | 643 | (643) | | - |
| Net assets released from restrictions | 6,610 | (6,610) | | - |
| **Total operating revenue** | **117,964** | **(129)** | **-** | **117,835** |
| **Operating expenses:** | | | | |
| Instruction | 44,958 | | | 44,958 |
| Academic support | 17,460 | | | 17,460 |
| Student services | 11,069 | | | 11,069 |
| Institutional support | 22,401 | | | 22,401 |
| Auxiliary activities | 20,876 | | | 20,876 |
| Research and public service | 4,889 | | | 4,889 |
| **Total operating expenses** | **121,653** | **-** | **-** | **121,653** |
| **Decrease in net assets from operating activities** | **(3,689)** | **(129)** | **-** | **(3,818)** |
| **Nonoperating activities:** | | | | |
| Net realized and unrealized gain on investments, net of endowment spending | 82,496 | 179,355 | | 261,851 |
| Private gifts and grants | 2,032 | 9 | 834 | 2,875 |
| Change in present value of life income funds | | (511) | | (511) |
| Maturities of annuity and life income funds | 1,534 | (1,635) | 101 | - |
| Change in other post retirement benefits | 576 | | | 576 |
| Loss on extinguishment of debt | (1,074) | | | (1,074) |
| Other | (117) | 1,118 | 75 | 1,076 |
| Transfers among net asset classes | (269) | (1,205) | 1,474 | - |
| **Increase in net assets from nonoperating activities** | **85,178** | **177,131** | **2,484** | **264,793** |
| **Net increase in net assets for the year** | **81,489** | **177,002** | **2,484** | **260,975** |
| **Net Assets, June 30, 2010** | **546,586** | **657,744** | **176,947** | **1,381,277** |
| **Net Assets, June 30, 2011** | **$ 628,075** | **$ 834,746** | **$ 179,431** | **$ 1,642,252** |

See accompanying notes to consolidated financial statements.

**SWARTHMORE COLLEGE**
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2012 and 2011
(in thousands)

| | 2012 | 2011 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ (14,997) | $ 260,975 |
| Adjustments to reconcile change in net assets to net cash used by operating activities | | |
| Depreciation | 7,123 | 6,983 |
| Loss on extinguishment of debt | 578 | 1,074 |
| Amortization of bond premium | (1,438) | (910) |
| Donor restricted gifts | (8,568) | (4,632) |
| Net unrealized and realized gains on investments | (18,690) | (290,655) |
| Change in student loan reserve | 22 | (66) |
| Changes in operating assets and liabilities | | |
| Change in accounts receivable, contributions receivable, prepaid expenses and inventories | 345 | 4,469 |
| Change in deferred payments | 10,247 | 1,345 |
| Change in student deposits, payables and accruals | 1,347 | (346) |
| **Net cash used by operating activities** | **(24,031)** | **(21,763)** |
| **Cash flows from investing activities** | | |
| Payments for property and equipment | (12,171) | (4,139) |
| Proceeds from sale of investments | 867,163 | 694,814 |
| Purchase of investments | (863,437) | (665,332) |
| Student loans and employee mortgages advanced | (704) | (432) |
| Payments on students loans and employee mortgages | 2,374 | 2,034 |
| **Net cash provided/(used) by investing activities** | **(6,775)** | **26,945** |
| **Cash flows from financing activities** | | |
| Donor restricted gifts | 8,568 | 4,632 |
| Change in assets restricted to investment in property and equipment | (17,282) | 56 |
| Proceeds from bonds and notes payable | 63,458 | 30,383 |
| Payments on bonds and notes payable | (24,106) | (33,327) |
| **Net cash provided by financing activities** | **30,638** | **1,744** |
| **Change in cash and cash equivalents** | **(168)** | **6,926** |
| Cash and cash equivalents, beginning of year | 32,433 | 25,507 |
| **Cash and cash equivalents, end of year** | **$ 32,265** | **$ 32,433** |
| Interest paid | $ 7,852 | $ 8,252 |
| Non-cash capital expenditures in accounts payable | $ 2,178 | $ 369 |

See accompanying notes to consolidated financial statements.

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

## 1. Summary of Significant Accounting and Reporting Policies

### Reporting Entity

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

### Basis of Presentation

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

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

**Temporarily Restricted -** Net assets whose use by the College is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

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

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

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

### Cash Equivalents

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

**Reclassification**
Certain 2011 amounts have been reclassified in the College's consolidated financial statements to conform to the 2012 presentation.

**Investments**
Refer to the Investments footnote 3 for the investments reporting policy.

**Property and Equipment**
Property and equipment is stated at cost less accumulated depreciation. Expenditures for new construction, major renovations and equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of buildings (60 years), improvements (15 years) and equipment (5 years). Depreciation is funded annually by internally designating funds for plant renewal and replacement. Amounts totaling $5,576 and $3,024 were so designated for the years ended June 30, 2012 and 2011, respectively.

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

**Contributions**
Contributions and investment income with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted revenues. Contributions and investment income with donor-imposed restrictions that are not met in the same year as received or earned are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed restrictions are satisfied. Temporarily restricted revenues or net assets are recognized prior to utilizing unrestricted revenues or net assets. Contributions restricted for the acquisition of property and equipment are reported as an increase to temporarily restricted net assets within the nonoperating section of the consolidated statement of activities. These contributions are recorded in assets in the accompanying statement of financial position under the caption, "Assets restricted to investment in property and equipment" until utilized for their intended purpose.

Contributions receivable are stated at their present values and are net of any allowance for uncollectible contributions. Present values are determined using the applicable market rate in the period contributions are recognized, which ranges from 1.07% to 5.06%.

**Compensated Absences**
Accrued compensation includes vacation time earned by hourly and staff employees, but not yet taken as of fiscal year-end. A staff employee is entitled to receive pay in lieu of vacation upon termination. Employees may accrue a maximum of 30 days of vacation. Accrued vacation payable amounted to $2,291 and $2,203 as of June 30, 2012 and 2011, respectively.

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

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

*(dollars in thousands)*

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

**New Accounting Pronouncements**

In January 2010, FASB issued a standard on *Improving Disclosures about Fair Value Measurements*. This standard requires that information, such as description of and reasoning for transfers, be disclosed for all transfers to and from Levels I, II and III in the fair value hierarchy. Another requirement under this standard is the gross, rather than net, presentation of purchases, sales, issuances and settlements in Level III roll-forward tables. This standard is effective for fiscal years beginning after December 15, 2009 for transfer disclosures and December 15, 2010 for gross presentation; and as such, disclosures pertaining to these topics will be made in accordance with this standard for consolidated financial statements beginning in Fiscal Year 2011 and Fiscal Year 2012, respectively.

**Subsequent Events**

We evaluated the period from June 30, 2012, the date of the financial statements, through September 19, 2012, the date of the issuance of the financial statements for subsequent events. On July 11, 2012, the College established a sole member Pennsylvania Limited Liability Corporation named Parrish LLC. The purpose of Parrish LLC is to lease and operate a hotel/inn and restaurant facility in the Borough of Swarthmore, PA. The College had no other reportable subsequent events between June 30, 2012 and September 19, 2012.

## 2. Contributions Receivable

Contributions receivable at June 30, 2012 and 2011 were as follows:

| Due in: | 2012 | 2011 |
|---|---|---|
| Less than one year | $7,374 | $8,418 |
| One to five years | 6,715 | 6,324 |
| More than five years | 5,374 | 6,405 |
| | 19,463 | 21,147 |
| Unamortized discount | (1,996) | ( 2,255) |
| Allowance for doubtful contributions | (461) | (669) |
| | $17,006 | $18,223 |

## 3. Investments

Effective June 1, 2008, the College adopted the *Fair Value Measurement* accounting standard. It defined the term ‘fair value’, established a framework for measuring it within generally accepted accounting principles, and expanded the disclosures about its measurements. In 2009, new guidance related to the *Fair Value Measurement* standard was issued for estimating in accordance with, or in a manner consistent with U.S. generally accepted accounting principles (US GAAP), the fair value of investments with investment companies and limited partnerships that provide a calculated value of the capital account or net asset value (NAV). As a practical expedient, the College is permitted to record the fair value of an investment at the measurement date using the reported NAV or capital account balance without further adjustment in most cases. When the reported NAV or capital account balance is not at the measurement date, the most current NAV or capital account balance adjusted for subsequent cash flows is used. The College has determined that this fairly represents fair value as of June 30, 2012 and 2011.

*(dollars in thousands)*

The College's interests in private equity and real asset limited partnerships and other nonmarketable investments managed by investment companies are carried at the capital account balance or NAV as determined by the investment managers as of June 30, 2012 and 2011. The College performs additional due diligence and reviews these for reasonableness. The College has assessed factors including, but not limited to, managers' compliance with the *Fair Value Measurement* standard in their audited financial statements, price transparency and valuation policies, and redemption conditions and restrictions.

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

Annuity, unitrust and life income funds periodically pay either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate at a designated time, usually upon the death of the last designated income beneficiary. The College's remainder interest is then available for use by the College as designated by either the donor or the Board of Managers. The actuarial liability for the charitable gift annuities as of June 30, 2012 and 2011 is based on the present value of future payments discounted at rates that vary by participant from 2.0% to 11.6% and the 2000CM Mortality Table. The actuarial liability for the unitrusts as of June 30, 2012 and 2011 is based on the present value of future payments discounted at rates that vary by trust from 5% to 9% and the Annuity 2000 Mortality Table.

Investment activity for fiscal years 2012 and 2011 was:

| | Endowment and similar funds | Annuity and Life Income funds | Other | 2012 Total | 2011 Total |
|---|---|---|---|---|---|
| Investments, beginning of year | $ 1,508,483 | $ 43,271 | $ 12,037 | $ 1,563,791 | $ 1,302,618 |
| Contributions | 6,662 | 3,556 | | 10,218 | 7,270 |
| Maturities of annuity and life income funds | | (6,762) | | (6,762) | (4,225) |
| Other | | 51 | (68) | (17) | (5,556) |
| Transfers in | 5,758 | | 27,639 | 33,397 | 5,325 |
| Transfers out | (5,226) | | | (5,226) | (5,197) |
| | 7,194 | (3,155) | 27,571 | 31,610 | (2,383) |
| Interest and dividends | 17,584 | 1,286 | | 18,870 | 24,291 |
| Unrealized and realized gains and (losses) | 18,874 | 156 | (341) | 18,689 | 290,655 |
| Investment management fees | (4,502) | | | (4,502) | (4,676) |
| | 31,956 | 1,442 | (341) | 33,057 | 310,270 |
| Payments to annuity and life income beneficiaries | | (845) | | (845) | (819) |
| Endowment spending distribution | | | | | |
| Unrestricted | (47,888) | | | (47,888) | (44,992) |
| Temporarily Restricted | (970) | | | (970) | (903) |
| | (48,858) | (845) | 0 | (49,703) | (46,714) |
| Investments, end of year | $ 1,498,775 | $ 40,713 | $ 39,267 | $ 1,578,755 | $ 1,563,791 |

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

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

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

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

The endowment objective established by the Board of Managers is to provide a sustainable level of distribution in support of the College's annual operating budget while preserving the real purchasing power of the endowment before gifts. The endowment provides significant support of the College's operations; therefore, endowment policies seek to achieve stability of and sustained growth in this support. The College aims for the distribution from the endowment for operations to grow over time at least as quickly as the average annual increase in College costs. In furtherance of these objectives, the endowment is invested in a diversified investment portfolio of equity and fixed income securities in order to reduce volatility and achieve targeted risk-adjusted returns over complete market cycles.

The College's investment objectives guide its asset allocation policy and are achieved by investing with external investment managers operating through a variety of investment vehicles, including separate accounts, commingled funds managed by investment companies and limited partnerships. The College has investments in six asset categories:

- Cash and Cash Equivalents are investments in short-term cash and money market instruments. These are able to be liquidated immediately or within 30 days.

- Fixed Income includes investments in fixed income securities, including U.S. Treasury bonds and Treasury Inflation-Protected securities. Level I assets have immediate liquidity while Level III assets have liquidity provisions similar to those for marketable alternatives, as described below.

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

- Real Assets include investments in real estate and natural resources such as oil and gas and commodities. Level II assets are able to be liquidated within 30 days. Level III assets are invested through limited partnerships which have stated terms of typically 10-12 years. The remaining terms of the College's private real estate and natural resource investments range from 4 to 8 years and 3 to 29 years respectively.

- Private Equity includes investments in buyouts, venture capital and distressed companies. These assets are invested through limited partnerships which have stated terms of typically 10-12 years. The remaining terms of the College's private equity investments range from 1 to 18 years.

*(dollars in thousands)*

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

A summary of investments, measured in accordance with the *Fair Value Measurement* standard, as of June 30, 2012 is as follows:

| | Quoted Prices In Active Markets Level I | Significant Other Observable Inputs Level II | Significant Unobservable Inputs Level III | Total |
|---|---|---|---|---|
| Endowment | | | | |
| Cash and Cash Equivalents | $ 78,073 | $ - | $ - | $ 78,073 |
| Fixed Income | 109,572 | | 42,234 | 151,806 |
| Public Equity | 196,859 | $ 246,025 | 131,687 | 574,571 |
| Real Assets | | 8,946 | 127,597 | 136,543 |
| Private Equity | | | 342,474 | 342,474 |
| Marketable Alternatives | | | 215,308 | 215,308 |
| Total Endowment | $ 384,504 | $ 254,971 | $ 859,300 | $ 1,498,775 |
| Life income | 40,713 | | | 40,713 |
| Other | 37,260 | | 2,007 | 39,267 |
| Total Investments | $ 462,477 | $ 254,971 | $ 861,307 | $ 1,578,755 |

Changes to the reported amounts of investments measured at fair value on a recurring basis using significant unobservable (Level III) inputs as of June 30, 2012 are as follows:

| | Fixed Income | Equity | Real Assets | Private Equity | Marketable Alternatives | Other | Total |
|---|---|---|---|---|---|---|---|
| Fair Value, June 30, 2011 | $34,171 | $132,625 | $107,575 | $356,400 | $198,509 | $1,930 | $831,210 |
| Realized gains/(losses) | | 6,757 | 4,680 | 31,198 | 1,389 | 25 | 44,049 |
| Unrealized gains/(losses) | 8,063 | 3,305 | (5,404) | (22,435) | (665) | | (17,136) |
| Purchases | | 5,000 | 35,892 | 36,527 | 32,181 | 95 | 109,695 |
| Sales | | (16,000) | (15,146) | (59,216) | (16,106) | (43) | (106,511) |
| Fair Value, June 30, 2012 | $42,234 | $131,687 | $127,597 | $342,474 | $215,308 | $2,007 | $861,307 |

*(dollars in thousands)*

A summary of investments, measured in accordance with the *Fair Value Measurement* standard, as of June 30, 2011 is as follows:

| | Quoted Prices In Active Markets Level I | Significant Other Observable Inputs Level II | Significant Unobservable Inputs Level III | Total |
|---|---|---|---|---|
| Endowment | | | | |
| Cash and Cash Equivalents | $ 59,726 | $ - | $ - | $ 59,726 |
| Fixed Income | 135,012 | | 34,171 | 169,183 |
| Public Equity | 208,990 | $ 263,438 | 132,625 | 605,053 |
| Real Assets | | 12,037 | 107,575 | 119,612 |
| Private Equity | | | 356,400 | 356,400 |
| Marketable Alternatives | | | 198,509 | 198,509 |
| Total Endowment | $ 403,728 | $ 275,475 | $ 829,280 | $ 1,508,483 |
| | | | | |
| Life income | 43,271 | | | 43,271 |
| Other | 10,107 | | 1,930 | 12,037 |
| Total Investments | $ 457,106 | $ 275,475 | $ 831,210 | $ 1,563,791 |

Changes to the reported amounts of investments measured at fair value on a recurring basis using significant unobservable (Level III) inputs as of June 30, 2011 are as follows:

| | Fixed Income | Equity | Real Assets | Private Equity | Marketable Alternatives | Other | Total |
|---|---|---|---|---|---|---|---|
| Fair Value, June 30, 2010 | $31,540 | $116,381 | $72,725 | $272,630 | $190,516 | $1,972 | $685,764 |
| Realized gains/(losses) | | 5,369 | 4,068 | 11,660 | 8,920 | (1) | 30,016 |
| Unrealized gains/(losses) | 2,631 | 28,875 | 14,925 | 77,675 | 12,283 | | 136,389 |
| Purchases | | | 27,472 | 42,398 | 18,000 | 180 | 88,050 |
| Sales | | (18,000) | (11,615) | (47,963) | (31,210) | (221) | (109,009) |
| Fair Value, June 30, 2011 | $ 34,171 | $ 132,625 | $ 107,575 | $ 356,400 | $ 198,509 | $ 1,930 | $ 831,210 |

The College has made commitments to various limited partnerships. The College expects the majority of these funds to be called over the next four years with liquidity to be received over the next fifteen years. The fair value of outstanding commitments at June 30, 2012 and 2011 were:

| | 2012 | 2011 |
|---|---|---|
| Private equity | $137,328 | $118,073 |
| Real estate | 60,124 | 52,664 |
| Natural resources | 35,726 | 35,776 |
| Total unfunded commitments | $233,178 | $206,513 |

The College has various sources of internal liquidity at its disposal, including cash, cash equivalents, and marketable debt and equity securities. If called upon at June 30, 2012, management estimates that it could have liquidated within 30 days approximately $697 million (unaudited) to meet short-term needs and provide investment flexibility.

*(dollars in thousands)*

The Board of Managers sets the level of distribution of endowment return annually. In fiscal years 2012 and 2011, the distribution of the endowment income exceeded the net yield (interest and dividends less fees) generated by endowment fund investments: therefore, $37,016 and $28,803, respectively, of net realized gains were allocated to the endowment spending distribution.

Net realized and unrealized gains on permanently restricted investments are included as either unrestricted or temporarily restricted revenues unless stipulated by the donor for perpetuity. The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment, use and management of the College's endowment funds. Commonwealth of Pennsylvania law permits the College to define as income each year a portion of these net realized gains. The amount so designated when added to net yield (interest and dividends less fees) cannot exceed 7% of the average of the past three fiscal years' fair values of the permanently restricted assets. The difference between the endowment distribution and the total income is included in unrestricted net assets. Pursuant to this Commonwealth of Pennsylvania law and at the direction of the Board of Managers, $11,273 and $11,609 of net realized gains on endowments which have their earnings distributed for general purposes were included in unrestricted revenues in fiscal years 2012 and 2011, respectively.

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

The following table shows the distribution and unit value for the investment pool at June 30, 2012 and 2011 respectively:

| | Number of Units | Fair Value | Income Distribution |
|---|---|---|---|
| June 30, 2012 | 2,389,344 | $628.49 | $21.09 |
| June 30, 2011 | 2,375,922 | $636.18 | $19.84 |

## 4. Property and Equipment

Property and equipment at June 30, 2012 and 2011 consisted of the following:

| | 2012 | 2011 |
|---|---|---|
| Land | $5,757 | $4,927 |
| Buildings and improvements | 320,614 | 309,857 |
| Construction in progress | 2,525 | 448 |
| Equipment | 18,472 | 17,938 |
| Works of art, historical treasures and similar assets | 4,591 | 4,591 |
| | 351,959 | 337,761 |
| Accumulated depreciation | (111,993) | (105,021) |
| | $239,966 | $232,740 |

Interest payments totaling $253 and $20 were capitalized in 2012 and 2011, respectively.

*(dollars in thousands)*

**5. Deferred Payments and Other Liabilities**

Deferred payments and other liabilities at June 30, 2012 and 2011 consisted of the present value of future payments due to or on behalf of employees and former employees under retirement and postretirement programs, donors under annuity and life income programs, a capital purchase agreement, the conditional asset retirement obligation and conditional gifts.

| | 2012 | 2011 |
|---|---|---|
| Donors | $13,373 | $10,443 |
| Postretirement health benefit | 11,917 | 8,657 |
| Conditional gift liability | 10,000 | 10,000 |
| Employees and former employees | 4,809 | 5,369 |
| Capital acquisition | 4,592 | - |
| Conditional asset retirement obligation | 1,015 | 990 |
| | $45,706 | $35,459 |

The College currently provides a postretirement health benefit in the form of a monthly stipend for the purchase of medical premiums to all employees who meet certain eligibility requirements. The components of the benefit as of June 30, 2012 and 2011 are as follows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Change in accumulated postretirement benefit obligation | | | | |
| Postretirement benefit obligation at beginning of year | | | | |
| Actives not fully eligible to retire | $ | 4,756 | $ | 5,306 |
| Actives fully eligible to retire | | 2,318 | | 2,460 |
| Retirees | | 1,583 | | 1,467 |
| Total | | 8,657 | | 9,233 |
| | | | | |
| Service cost | | 353 | | 420 |
| Interest cost | | 486 | | 466 |
| Actuarial (gain) / loss | | 2,644 | | (1,252) |
| Benefits paid | | (223) | | (210) |
| | | | | |
| Postretirement benefit obligation at end of year | | | | |
| Actives not fully eligible to retire | | 7,422 | | 4,756 |
| Actives fully eligible to retire | | 2,877 | | 2,318 |
| Retirees | | 1,618 | | 1,583 |
| Total | $ | 11,917 | $ | 8,657 |

*(dollars in thousands)*

| | 2012 | 2011 |
|---|---|---|
| **Change in plan assets** | | |
| Employer contribution | $ 223 | $ 210 |
| Benefits paid | (223) | (210) |
| Fair value of plan assets at end of year | $ - | $ - |
| | | |
| **Funded status** | | |
| Postretirement benefit obligation at end of year | $ 11,917 | $ 8,657 |
| Fair value of plan assets at end of year | - | - |
| Funded status end of year | 11,917 | 8,657 |
| | | |
| Current liability | 338 | 297 |
| Non-current liability | 11,579 | 8,360 |
| Total | $ 11,917 | $ 8,657 |
| | | |
| **Components of the net periodic postretirement benefit cost** | | |
| Service cost | $ 353 | $ 420 |
| Interest cost | 486 | 466 |
| Amortization of actuarial (gain) / loss | (35) | 45 |
| Total | $ 804 | $ 931 |
| | | |
| **OPEB changes other than net periodic postretirement benefit cost** | | |
| New actuarial (gain) / loss | $ 2,644 | $ (1,252) |
| Amortization of unrecognized amounts | 35 | (45) |
| Total | $ 2,679 | $ (1,297) |
| | | |
| **Unrecognized amounts and amortization amounts in the following year:** | | |
| Net actuarial (gain) / loss | 1,541 | (1,138) |
| Total | $ 1,541 | $ (1,138) |
| | | |
| **Amortization amounts in following year (estimate)** | | |
| Net actuarial (gain) / loss | 30 | (21) |
| Total | $ 30 | $ (21) |

*(dollars in thousands)*

| | | | | |
|---|---|---|---|---|
| Assumptions and effects: | | | | |
| Medical trend rate next year | | 9.00% | | 10.00% |
| Ultimate trend rate | | 5.00% | | 5.00% |
| Year ultimate trend rate is achieved | | 2016 | | 2016 |
| Discount rate used to value end of year accumulated postretirement benefit obligation | | 3.90% | | 5.48% |
| Discount rate used to value net periodic postretirement benefit cost | | 5.48% | | 5.32% |
| Effect of a 1% increase in health care cost trend rate on: | | | | |
| Interest cost plus service cost | $ | 155 | $ | 169 |
| Accumulated postretirement benefit obligation | $ | 2,219 | $ | 1,339 |
| Effect of a 1% decrease in health care cost trend rate on: | | | | |
| Interest cost plus service cost | $ | (125) | $ | (136) |
| Accumulated postretirement benefit obligation | $ | (1,783) | $ | (1,104) |
| Measurement date | | 6/30/2012 | | 6/30/2011 |

Estimated future benefit payments (net of employee contributions):

| Year Beginning July 1st | Employer Payment |
|---|---|
| 2012 | 338 |
| 2013 | 385 |
| 2014 | 422 |
| 2015 | 468 |
| 2016 | 516 |
| 2017 - 2021 | 2,474 |

## 6. Bonds and Notes Payable

Bonds and notes payable at June 30, 2012 and 2011 were:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| Swarthmore Borough Authority | | | | |
| 1998 Revenue Bonds | $3,024 | $2,930 | $4,529 | $4,300 |
| 2002 Revenue Bonds | 2,177 | 2,172 | 25,056 | 24,492 |
| 2006A Revenue Bonds | 83,992 | 78,660 | 79,542 | 78,823 |
| 2008 Revenue Bonds | 26,808 | 26,144 | 27,865 | 26,572 |
| 2009 Revenue Bonds | 8,916 | 8,815 | 9,196 | 9,047 |
| 2011 Revenue Bonds | 31,293 | 29,985 | 30,317 | 30,383 |
| 2011B Revenue Bonds | 17,620 | 17,024 | - | - |
| 2011C Revenue Bonds | 48,131 | 46,280 | - | - |
| Other notes payable | 865 | 854 | 865 | 865 |
| Total bonds and notes payable | $222,826 | $212,864 | $177,370 | $174,482 |

The College bond ratings were Aaa/AAA for the years ended June 30, 2012 and 2011.

On December 21, 2011, the College issued $14,380 aggregate principal amount of 2011B Revenue Bonds (2011B Revenue Bonds) through the Swarthmore Borough Authority (the Authority) at a premium. The proceeds will be used for various tax-exempt capital projects and to fund the costs of issuing the 2011B Bonds. The 2011B Bonds have interest rates of 2.0% to 5.0% depending upon the maturity dates, which range from 2012 to 2021 in annual amounts ranging from $270 to $11,595. Interest is payable semi-annually.

On December 21, 2011, the College issued $46,280 aggregate principal amount of taxable 2011C Revenue Bonds (2011C Revenue Bonds) through the Swarthmore Borough Authority (the Authority). The proceeds were used for general operations, to advance refund a portion of the 2002 Revenue Bonds, par value of $19,665 with maturity dates between 2013 and 2020 and interest rates of 4.75% to 5.25% depending upon the maturity dates, and to fund the costs of issuing the 2011C Bonds. The 2011C Bonds have interest rates of .708% to 3.10% depending upon the maturity dates, which range from 2012 to 2021 in annual amounts ranging from $855 to $21,420. Interest is payable semi-annually.

On June 29, 2011, the College issued $26,665 aggregate principal amount of 2011 Revenue Bonds (2011 Bonds) through the Swarthmore Borough Authority (the Authority) at a premium. The proceeds were used to refund the 2001 Revenue Bonds, par value of $29,320 which were scheduled to mature on September 15, 2031, and to fund the costs of issuing the 2011 Bonds. The 2011 Bonds have interest rates of 3.0%, 4.0% and 5.0% (priced to yield 2.18%) and mature on September 15, 2018. Interest is payable semi-annually.

On July 29, 2009, the College issued $8,525 aggregate principal amount of 2009 Revenue Bonds (2009 Bonds) through the Swarthmore Borough Authority (the Authority) at a premium. The proceeds were used to refund a portion of the 1998 Revenue Bonds which were scheduled to mature on September 15, 2018 and September 15, 2028, and to fund the costs of issuing the 2009 Bonds. The 2009 Bonds have interest rates of 2.0% and 5.0% (priced to yield 1.56%) and mature on September 15, 2013. Interest is payable semi-annually.

On April 30, 2008, the College issued $25,360 aggregate principal amount of 2008 Revenue Bonds (2008 Bonds) through the Authority at a premium. The proceeds were used to refund the 2006B variable auction rates notes (2006B Bonds), par value of $27,600, and to fund the costs of issuing the 2008 Bonds. The 2008 Bonds have an interest rate of 5.0% (priced to yield 2.95%) and mature on September 15, 2013. Interest is payable semi-annually.

On December 20, 2006, the College issued $76,085 aggregate principal amount of 2006A Revenue Bonds (2006A Bonds) through the Authority at a premium. The proceeds were used to advance refund $10,375 of the 1998 Revenue Bonds, to advance refund $63,970 of the 2001 Revenue Bonds, and to fund the costs of issuing the 2006A Bonds. The 2006A Revenue Bonds have interest rates from 4.0% to 5.0% depending upon the maturity dates, which range from 2014 to 2030 in annual amounts ranging from $450 to $22,915. Interest is payable semi-annually.

On July 15, 2002, the College issued $37,650 aggregate principal amount of 2002 Revenue Bonds (2002 Bonds) through the Authority to refund the 1992 Revenue Bonds in order to take advantage of a lower interest rate. On December 21, 2011, $19,665 of the 2002 Revenue Bonds with maturity dates between 2013 and 2020 and interest rates ranging from 4.75% to 5.250% depending upon the maturity dates, were advanced refunded using proceeds from the taxable 2011C Revenue Bonds. The 2002 Revenue Bond that remains outstanding has an interest rate of 5.00%, a maturity date of September 15, 2012, and a balance of $2,155.

*(dollars in thousands)*

On July 1, 1998, the College issued $34,960 of 1998 Revenue Bonds through the Authority. The proceeds were used for the refunding of the 1988 Revenue Bonds of $6,530, the advance refunding of $8,770 of 1992 Revenue Bonds, $18,088 to finance the costs of renovation and other capital improvements to various College facilities and the remainder to pay a portion of the costs of issuing the 1998 Revenue Bonds. On December 20, 2006, $10,375 of the 1998 Revenue Bonds with maturity dates between 2014 and 2028 and interest rates of 5.0% were advance refunded using proceeds from the 2006A Revenue Bonds. The 1998 Revenue Bonds which remain outstanding have interest rates of 4.70% and 4.75%, maturity dates in 2012 and 2013, and balances of $1,435 and $1,495. The 1998 Revenue Bonds are collateralized by a pledge of all unrestricted College revenues.

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

| | Principal | Interest | Total |
|---|---|---|---|
| 2012-2013 | $4,726 | $8,370 | $13,096 |
| 2013-2014 | 38,761 | 7,407 | 46,168 |
| 2014-2015 | 4,280 | 6,499 | 10,779 |
| 2015-2016 | 4,370 | 6,414 | 10,784 |
| 2016-2017 | 4,475 | 6,315 | 10,790 |

Interest paid on bonds and notes payable was $7,852 and $8,252 for the years ended June 30, 2012 and 2011, respectively.

## 7. Retirement Benefits

Retirement benefits for all eligible employees of the College are individually funded and vested under a defined contribution Sec. 403(b) retirement plan with Teachers Insurance and Annuity Association of America (TIAA), Vanguard Group of Investment Companies or Calvert Group. Under this arrangement, the College makes monthly contributions as defined in the Plan to the accounts of all employees. The College's contributions under this Plan are included in operating expenses and were $4,776 in 2012 and $4,663 in 2011.

During fiscal year 2003 the College initiated a Sec. 457 non-qualified deferred compensation plan for senior management employees. Participants elect to defer compensation, which is invested with the Teachers Insurance and Annuity Association of America (TIAA) or the Vanguard Group of Investment Companies and is considered College property until the employee withdraws the funds due to emergency, termination or retirement. The participants' contributions are subject to the general creditors of the College, so the invested asset is offset by a corresponding liability in the amounts of $644 and $618 at June 30, 2012 and 2011 respectively. The College does not record transaction activity as revenue or expense. The investments are reported at fair value.

*(dollars in thousands)*

**8. Net assets**

Net assets at June 30, 2012 were designated or allocated to:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment | | | | |
| True Endowment | | $700,465 | $169,214 | $869,679 |
| Term Endowment | | 75,549 | | 75,549 |
| Quasi Endowment | $553,547 | | | 553,547 |
| Annuity and life income | 6,592 | 16,815 | 2,840 | 26,247 |
| Student loans | 1,979 | | | 1,979 |
| Property and equipment | | | | |
| Unexpended | 1,504 | 2,086 | | 3,590 |
| Net investment in property and Equipment | 62,369 | | | 62,369 |
| Other purposes | 12,400 | 7,269 | 14,626 | 34,295 |
| | $638,391 | $802,184 | $186,680 | $1,627,255 |

Net assets at June 30, 2011 were designated or allocated to:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment | | | | |
| True Endowment | | $724,046 | $161,104 | $885,150 |
| Term Endowment | | 78,828 | | 78,828 |
| Quasi Endowment | $544,505 | | | 544,505 |
| Annuity and life income | 5,432 | 23,744 | 2,762 | 31,938 |
| Student loans | 1,953 | | | 1,953 |
| Property and equipment | | | | |
| Unexpended | 3,451 | | | 3,451 |
| Net investment in property and equipment | 59,014 | | | 59,014 |
| Other purposes | 13,720 | 8,128 | 15,565 | 37,413 |
| | $628,075 | $834,746 | $179,431 | $1,642,252 |

Certain amounts have been transferred out of unrestricted net assets and temporarily restricted net assets into permanently restricted net assets as a result of donor restrictions on matching gifts, unspent investment return added to principal, and clarifications of donors' restrictions.

The aggregate amount of all donor-related endowment funds for which the fair value of assets is less than the level required by donor stipulations is $21 and $2 at June 30, 2012 and 2011 respectively.

*(dollars in thousands)*

Changes to the reported amount of the College's endowment as of June 30 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment total, June 30, 2010 | $ 464,944 | $ 627,690 | $ 156,620 | $ 1,249,254 |
| Contributions | 1,246 | 1,107 | 2,876 | 5,229 |
| Transfers | (2,875) | (1,222) | 1,584 | (2,513) |
| Interest and dividends | 22,888 | | 24 | 22,912 |
| Unrealized and realized gains (losses) | 107,970 | 176,202 | | 284,172 |
| Investment management fees | (4,676) | | | (4,676) |
| Endowment spending distribution | (44,992) | (903) | | (45,895) |
| Endowment total, June 30, 2011 | $ 544,505 | $ 802,874 | $ 161,104 | $ 1,508,483 |
| Contributions | 2,990 | | 3,672 | 6,662 |
| Transfers | (2,597) | (1,298) | 4,427 | 532 |
| Interest and dividends | 17,573 | | 11 | 17,584 |
| Unrealized and realized gains (losses) | 43,466 | (24,592) | | 18,874 |
| Investment management fees | (4,502) | | | (4,502) |
| Endowment spending distribution | (47,888) | (970) | | (48,858) |
| Endowment total, June 30, 2012 | $ 553,547 | $ 776,014 | $ 169,214 | $ 1,498,775 |

## 9. Expenses by Natural Classification

Expenses for the years ended June 30, 2012 and 2011 were incurred for the following:

| | 2012 | 2011 |
|---|---|---|
| Compensation | | |
| Faculty | $32,663 | $31,553 |
| Staff | 39,781 | 39,692 |
| Student | 1,313 | 1,257 |
| Amortization | 232 | 193 |
| Life income payments and other adjustments | 1,894 | 1,970 |
| Bookstore merchandise for resale | 544 | 556 |
| Dining services food | 2,026 | 1,907 |
| Equipment | 2,932 | 3,291 |
| Foreign study program expenses | 2,539 | 2,694 |
| Insurance | 724 | 709 |
| Interest | 6,275 | 7,135 |
| Library materials | 2,161 | 2,178 |
| Services, supplies and other | 17,458 | 14,956 |
| Real estate taxes | 958 | 935 |
| Travel | 3,542 | 3,213 |
| Telephone | 51 | 48 |
| Utilities | 2,111 | 2,383 |
| Depreciation | 7,123 | 6,983 |
| | $124,327 | $121,653 |

**10. Income Tax**

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

Marjay Productions, Inc. is a for-profit corporation subject to federal income taxes under the Internal Revenue Code.

Per the requirement to assess uncertain tax positions, no adjustments to the financial statements were required as a result of the standard. The College will continue to monitor and evaluate its unrelated business income activity.

**11. Commitments and Contingencies**

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

As of June 30, 2012 and 2011, the College had outstanding commitments for construction contracts of \$3,158 and \$1,243, respectively.

# CORPORATION AND BOARD OF MANAGERS

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Suzanne P. Welsh, *Treasurer*
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Jorge Munoz '84
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Robin M. Shapiro '78
David W. Singleton '68
Thomas E. Spock '78
Danielle Toaltoan '07
Joseph L. Turner '73

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James L. Bock III '90, *Vice President and Dean of Admissions*
H. Elizabeth Braun, *Dean of Students*
Karl W. Clauss, *Vice President for Development and Alumni Relations*
Maurice G. Eldridge '61, *Vice President for College and Community Relations and Executive Assistant to the President*
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