
SWARTHMORE
COLLEGE
FINANCIAL
REPORT
2010–2011



SWARTHMORE

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Swarthmore College's financial position, driven by robust investment returns, strengthened this past fiscal year. Despite continuing worries about high unemployment rates and struggling economies in the United States and Europe, the equity markets staged a significant recovery during the 12 months ended June 30, 2011.

Swarthmore's endowment increased \$259.2 million to reach \$1.508 billion, a new fiscal year-end high. Total net assets increased to \$1.642 billion from \$1.381 billion the prior year. With financial markets volatile and concerns about the global economic outlook increasing, the College remained committed to the five-year financial plan adopted by the Board of Managers in 2009.

This plan was guided by several key principles:

- Preservation of academic excellence
- Protection of need-blind admissions and accessibility for qualified students from all economic backgrounds
- Provisions of strong support for students
- Commitment to community
- Stewardship of the endowment to achieve intergenerational equity

The College was pleased that the plan, while making significant reductions to the budget, preserved the College's academic program and financial aid policies and did not necessitate employee layoffs. The first phase of the plan was implemented in 2009–2010 and included \$3.2 million in ongoing adjustments and \$9.1 million in temporary adjustments. The second phase of the plan included an additional \$8

million in ongoing adjustments. Most of these were implemented in 2010–2011. Fortunately, with the improvement in the endowment last year, the Board of Managers decided that the last actions—elimination of three faculty positions and an additional \$1.1 million in other budget reductions—could be avoided.

This report presents the financial results of the 2010–2011 year in detail. Longer-term statistical information is presented in Chart 1, and the audited financial statements appear following this report.

RESULTS OF THE 2010–2011 FISCAL YEAR

The annual cost of a Swarthmore education was \$80,994 per student in 2010–2011, as shown in Chart 2. This figure represented the College's operating expenses divided by the average enrollment last year. It did not include financial aid as scholarships are considered a discount against the gross student charges. In other words, the College's net student revenues are less than 100 percent of stated student charges. As the chart shows, the College's two main sources of revenues are net student revenues, which provided 42 percent of revenues, and philanthropy from the endowment and other gifts, which provided 42 percent. Along with some other smaller sources of income, these supported the College's total expenditures of \$121.6 million in 2010–2011. This was an increase of 2.3 percent over the prior year.

STUDENT REVENUES: ENROLLMENT, STUDENT FEES, AND FINANCIAL AID

On-campus enrollment was 1,418 students last year, and there was an average of an additional 84 students

FINANCIAL REPORT 2010–2011

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

	1970	1980	1990	2000	2010	2011
STUDENT CHARGES						
Average on-campus enrollment	1,097	1,298	1,281	1,356	1,414	1,418
Average foreign-study enrollment ¹				80	73	84
Comprehensive charges (\$)	3,435	7,080	19,450	31,690	49,600	51,500
Total expenditures and mandatory transfers, including financial aid (\$000)	7,160	14,891	46,537	92,721	143,249	147,648
Per student (\$)	6,527	11,472	36,329	64,569	96,334	98,301
Per student, excluding financial aid (\$)	5,983	10,330	31,795	55,718	79,961	80,994
Student charges as percentage of budget/student, excluding financial aid	57	69	61	57	62	64
ADMISSIONS DATA						
Applications completed	2,332	1,866	3,233	3,956	6,041	6,547
Percentage accepted	23	40	32	24	16	15
Percentage enrolled (of those accepted)	57	44	34	39	40	39
FINANCIAL AID DATA						
Percentage of students receiving need-based Swarthmore scholarships	36	39	45	51	51	52
Average Swarthmore scholarship (\$)	1,504	2,478	8,661	17,070	30,865	31,924
Average Swarthmore scholarship as percentage of charges	44	35	45	54	62	62
Average financial need (\$)	N/A	4,108	12,580	22,922	34,973	36,023
Average Swarthmore scholarship as percentage of average need	N/A	60	69	74	88	89
GIFTS AND GRANTS RECEIVED²						
Annual giving (\$000)	361	1,000	2,035	3,439	4,704	4,913
Other gifts and bequests (\$000)	1,076	4,259	9,982	14,656	10,076	11,377
Government grants (\$000)	321	1,493	2,092	2,014	1,471	1,938
Total (\$000)	1,758	6,752	14,109	20,109	16,251	18,228
Annual Fund participation (%)	42.2	48.5	58.5	55.3	55.4	55.6
ENDOWMENT						
Original value (\$000)	17,982	26,559	80,649	155,070	366,331	370,338
Market value (\$000)	48,514	91,557	336,224	963,676	1,249,254	1,508,483
Unit market value (\$) ³	37.29	61.50	181.75	473.10	528.20	636.18
Distribution/unit (\$)	1.41	2.20	6.44	14.77	20.10	19.84
DEBT OUTSTANDING (\$000)	0	0	37,215	78,632	176,991	174,482

¹ Reflects a change in payment and accounting procedures

² Gift total may differ from those reported in the audited financial statements, primarily because of treatment of pledges and grants received.

³ Primary pool

in foreign study each semester. Student charges increased 3.8 percent to \$51,500 in 2010–2011.

Scholarships funded by the College (excluding grants from other sources) increased 6.8 percent in 2010–2011 to \$26 million. Fifty-one percent of the student body qualified for need-based aid with an average scholarship of \$31,924. Economic conditions have contributed to an increased percentage of aided students in the incoming first-year classes in recent years. In addition, the average need per aided student is also increasing. Scholarships have been the fastest growing item in the College’s budget for many years, and this growth shows no signs of abating. The College remains committed to continued affordability and accessibility for all admitted students, but the trends present financial challenges.

ENDOWMENT SUPPORT

The College’s support from the endowment in 2010–2011 at \$45.9 million was slightly below the amount from the prior year. This was consistent with the plan adopted by the Board of Managers to respond to the downturn. Growth in endowment support for the budget is expected to resume in future years. The endowment spending rate was 3.8 percent, as shown in Chart 3. The budget plan and the resulting reduction in endowment support stabilized the endowment spending rate within the target spending range of 3.5 to 5 percent. At the worst point in the downturn in early 2009, without corrective action, a jump in the spending rate to an unsustainable rate of over 6 percent was estimated. The spending rate last year was lower than anticipated due to the faster-than-anticipated recovery in the endowment value.

FACULTY AND STAFF COMPENSATION

The College was able to resume salary increases for faculty and staff in 2010–2011 after freezing them the prior year. The freeze was part of the budget plan and was common among peer institutions as well. The College was pleased it did not have to implement any layoffs, but some vacant positions were eliminated as part of the budget plan. The leave replacement budget for faculty was also reduced. The College continued to scrutinize open positions for both faculty and staff. Some reallocations and reorganizations resulted from this process.

In 2010–2011, the College began a comprehensive review of the design and costs of the employee benefits program. This has resulted in some improvements in plan design and more competitive pricing. In the face of rising cost trends, the College wants to ensure its benefits budget is spent as cost-effectively as possible.

CHART 2
FINANCING A SWARTHMORE EDUCATION 2010–2011

WHAT IS THE COST OF A YEAR AT SWARTHMORE?

\$80,994

(per student, excluding financial aid)

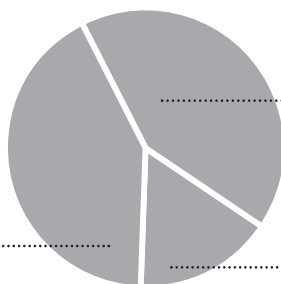
FACULTY COMPENSATION \$21,007
STAFF COMPENSATION \$26,426
DEPARTMENTAL EXPENSES \$19,995
INTEREST, TAXES, UTILITIES, INSURANCE, ANNUITIES \$13,566

WHAT DO STUDENT CHARGES COVER?

Room—\$6,100
Board—\$5,800
Tuition/Fee—\$39,600
Total—\$51,500

Actual Collected After Financial Aid—\$33,596

42%



WHAT DOES PHILANTHROPY COVER?

Endowment—\$29,955
Private Gifts—\$4,262
(including Annual Fund)

42%

WHAT COMES FROM OTHER SOURCES?

Other Sources—\$13,181
(Rents, Application Fees, Interest, etc.)

16%

NON-COMPENSATION EXPENDITURES

Limited funds have been available for non-compensation expenditures. New funds have been allocated only for unavoidable costs or compelling program needs. Departments have made great efforts to economize and stretch their budget dollars. On Jan. 1, 2011, natural gas and electricity rates were deregulated in Pennsylvania. The College locked in favorable rates for most of its anticipated energy needs for the next two years.

FACILITIES CAPITAL SPENDING

Facilities continued to operate under a constrained capital budget in 2010–2011. The financial plan included three years of lower facilities capital expenditures, last year being the second year. Infrastructure and building repairs consumed much of the budget. Accessibility improvements to buildings, pathways, and parking continued. No major renovations or new construction were undertaken or completed last year.

TECHNOLOGY CAPITAL SPENDING

Technology capital funds were used last year for routine maintenance and upgrades as well as new initiatives such as online reading and identity management.

Learning spaces were improved as 16 classrooms were updated with new high definition (HD) projectors, Blu-ray projectors, and control systems. Computers were installed in all of the remaining Science Center classrooms.

Progress was also made with infrastructure upgrades. Most of the audio/video system in the Scheuer

Room, Kohlberg Hall, was replaced, and the room was outfitted with sophisticated sound reinforcement to support meetings. The wireless network in the residence halls was upgraded; students now have enough bandwidth to use high-bandwidth applications such as streaming video. Next-generation network equipment was installed between the two data centers and in the five hubs on campus, eliminating bottlenecks, increasing network speeds, and improving reliability. A major refresh of the data storage arrays was completed after extensive vendor research and negotiations. The new storage is more flexible and will allow growth without service downtime. A new intrusion prevention and detection system provides tools necessary to protect the College from the increasing level of risk.

With respect to new initiatives, vendor selection and requirements definition for online reading of admissions applications took place during the 2010–2011 academic year. Testing and configuration has been the focus since the summer, and the new system will be used for the Class of 2016. A system that allows individuals to register for events, and pay by credit card, was selected and used for events such as Alumni Weekend. Desktop virtualization moved to the pilot testing phase and was used to meet last-minute software requests from faculty as well as to provide Windows services to people using Macs. Progress was made in the research phase of an identity and access management project.

GIFTS

The College received \$18.2 million

in gifts and grants in 2010–2011 compared to the \$16.3 million received the prior year. An increase of \$1.6 million in gifts of deferred assets made the most significant contribution to the higher figure. Gift receipts included \$2.5 million in payments on pledges made in prior years.

The Annual Fund realized an increase of 4.5 percent over the previous year to \$4.9 million. The number of alumni donors increased modestly for a second year in a row and alumni maintained a participation rate of 55.6 percent of alumni solicited (39.3 percent of alumni of record). The number of alumni donors in the 10 youngest classes increased by 11 percent over the previous year. Overall donor retention remained steady at 84 percent. Gifts from current parents to the Parents Fund (a part of the Annual Fund) increased by 21 percent over 2009–2010. A special Board initiative added almost \$1 million in current support.

The College issued more than \$2 million in gift annuity contracts in 2010–2011, with many middle-age alumni including Swarthmore annuities as part of their financial planning for retirement. The number of annuity contracts issued more than doubled over 2009–2010. Terminated life income gifts (after the death of the income recipient) provided the College with \$3.6 million in unrestricted funds (not included in gift totals). In the past year, the College enrolled 70 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 Andrew W. Mellon Foundation continued its long-standing support of undergraduate liberal arts education by awarding two new grants to the College in 2011: \$591,000 to support new cooperative initiatives in environmental studies at the Tri-Colleges (Swarthmore, Haverford, and Bryn Mawr), and a \$1 million challenge grant (to be met by May 2014) for a tenure-track faculty position with responsibilities in environmental studies and economics.

Rebecca Chopp, in her second year as president, visited with thousands of Swarthmore alumni and parents and scores of leadership donors in more than a dozen and a half cities throughout the United States as well as Toronto, Tokyo, Taipei, Hong Kong, and Seoul.

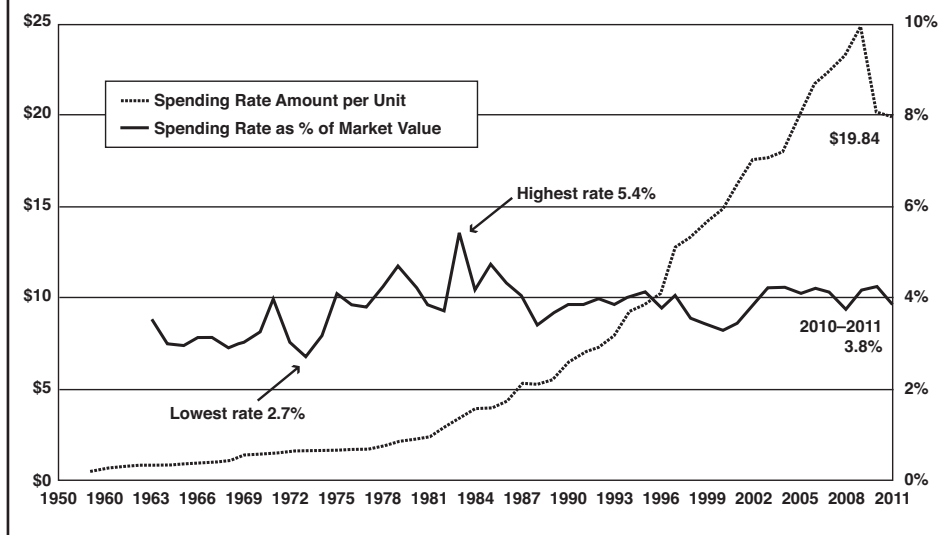
Note: A total of \$13 million in gifts and grants was recognized in the financial statements according to generally accepted accounting principles. The difference between this and the \$18.2 million discussed above is related primarily to the accounting treatment of pledges and grants.

ADMISSIONS

The College received a record number of 6,547 applications last year for the Class of 2015, an 8 percent increase over the prior year. Of these, 987 students were admitted, generating a selectivity ratio of 15 percent. The incoming first-year class had 386 students, reflecting a 39 percent yield. There were also 10 transfer students.

Median SAT scores continued to be strong at 730 verbal, 710 math, and 730 writing, each out of a possible 800 total score. Students represented 27 countries and 39 of the 50 states.

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



ENDOWMENT

The market value of the endowment increased \$259.2 million over the prior year to \$1.508 billion at June 30, 2011, a year-end value exceeding pre-crisis levels. The investment return was 24.6 percent, which was among the highest of all large endowments. Strong performance was achieved by the College's domestic and international equity managers and the private equity and real asset allocations. The marketable alternative and fixed income allocations also generated positive, but lower returns. Their role in the endowment is to provide downside protection and reduce volatility.

The College's trailing multi-year returns also compared favorably with other endowments. However, despite this strong relative performance, the equity markets over the past decade have struggled. The Standard & Poor's 500 Stock index has returned only 2.7 percent per year over the past 10 years, far

below its long-term trend. The College's equity investment managers for the most part have performed better than the benchmark indexes. However, the endowment returns over the past 10 years still lag behind our longer-term target returns as shown in the table below:

Period Ended	Average Annual Return	Average Annual Target Return*
June 30, 2011		
1-year	24.6%	9.3%
3-year	6.0%	6.8%
5-year	7.2%	7.9%
10-year	7.7%	8.1%

* 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 pri-

vate equity, real assets, and marketable alternatives, the endowment has maintained a high level of liquidity. As of June 30, 2011, about \$732 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 over the past few years.

DEBT

In June 2011, the College issued \$26.7 million par value in tax-exempt debt to refinance the outstanding 2001 bonds to achieve interest rate savings. The Moody's and Standard & Poor's rating agencies reaffirmed the College's Aaa and AAA ratings, respectively. These are the highest ratings awarded by the agencies. As of June 30, 2011, the College had \$174.5 million in debt outstanding. This was 12 percent of the value of the endowment, a level which compared favorably with peer institutions.

CONCLUSION

The adoption of the College's financial plan responded to the impact of the Great Recession and positioned the College to look forward with a strategic planning initiative. Over the course of the last year, many faculty, staff, students, Board members, and alumni engaged intensively in a process that resulted in a draft strategic plan. This plan has been presented to the College community and is expected to be finalized over the next few months.

CHART 4 ASSET ALLOCATION

June 30, 2011

	<i>Percent of Total</i>	<i>Long-Term Target</i>
Domestic Equity	20.4%	20.0%
International Equity	19.7	20.0
Marketable Alternatives	13.1	14.0
Private Equity	23.6	17.0
Real Assets	7.9	14.0
Total Equity & Alternatives	84.7	85.0
U.S. Bonds	11.2	10.0
Cash Equivalents	4.1	5.0
Total Fund	100.0	100.0

CHART 5 SWARTHMORE COLLEGE ENDOWMENT HISTORY OF ASSET ALLOCATION

	1960	1970	1980	1990	2000	2010	2011
Common Stocks							
Domestic Stocks (%)	73	80	81	56	55	22	20
International Stocks (%)	0	0	0	13	20	19	20
Private Equity (%)	0	0	0	5	3	22	24
Marketable Alternatives (%)	0	0	0	3	3	15	13
Real Assets (%)	6	3	3	2	1	7	8
Fixed Income/Cash (%)	21	17	16	21	18	15	15
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Preserving the College's financial sustainability is fundamental to this plan. Much work has already taken place to analyze financial scenarios and estimate costs of the recommendations. Once the plan is finalized, the next stage of implementation will begin. This will include several efforts—designing a campus master plan for new facilities, preparing for a capital campaign, and developing more detailed financial plans. These will balance our needs with our resources, while preserving intergenerational equity and maintaining

flexibility to adapt to unanticipated and uncertain future events.



Suzanne P. Welsh
Vice President for Finance
and Treasurer

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 *2010–2011 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 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, 2011; and, further, that the financial statements fairly represent the financial condition of the College as of June 30, 2011 and the operating results and cash flows for the year ended June 30, 2011.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING



Suzanne P. Welsh
Vice President for Finance and Treasurer



Eileen E. Petula
Assistant Vice President for Finance and Controller



Report of Independent Auditors

To 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, 2011 and 2010, 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 responsibility 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 23, 2011

SWARTHMORE COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
For the Years Ended June 30, 2011
(in thousands)

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 32,433	\$ 25,507
Accounts receivable, net	1,227	2,029
Prepaid expenses and inventories	3,909	5,355
Contributions receivable	18,223	20,593
Student loans receivable, net	2,090	2,402
Employee mortgages receivable	14,081	15,304
Assets restricted to investment in property and equipment	37	93
Property and equipment, net	232,740	235,215
Investments, at market		
Endowment	1,508,483	1,249,254
Life income and annuity	43,271	42,873
Other	12,037	10,491
	\$ 1,868,531	\$ 1,609,116
Total assets	\$ 1,868,531	\$ 1,609,116
LIABILITIES		
Accrued compensation	\$ 6,712	\$ 6,527
Payables and other accruals	5,662	6,609
Student deposits	2,222	1,856
Deferred payments and other liabilities	35,459	34,114
Refundable government loan funds	1,742	1,742
Bonds and notes payable	174,482	176,991
	226,279	227,839
Total liabilities	226,279	227,839
NET ASSETS		
Unrestricted	\$ 628,075	\$ 546,586
Temporarily restricted	834,746	657,744
Permanently restricted	179,431	176,947
	1,642,252	1,381,277
Total net assets	1,642,252	1,381,277
Total liabilities and net assets	\$ 1,868,531	\$ 1,609,116

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2011
(in thousands)

	Unrestricted	Restricted		Total 2011
		Temporarily	Permanently	
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 ACTIVITIES
For the Years Ended June 30, 2010
(in thousands)

	Unrestricted	Restricted		Total 2010
		Temporarily	Permanently	
Operating revenues				
Student tuition and fees	\$ 57,498	\$	\$	\$ 57,498
Room and board	15,777			15,777
Less student aid	(24,347)			(24,347)
Net student tuition and fees	48,928	-	-	48,928
Revenues from investments				
Endowment spending distribution	44,518	1,807		46,325
Other	1,111			1,111
Private gifts and grants	6,978	2,738		9,716
Government grants	530	1,096		1,626
Other additions	7,094	910		8,004
Transfers among net asset classes	651	(651)		-
Net assets released from restrictions	6,209	(6,209)		-
Total operating revenue	116,019	(309)	-	115,710
Operating expenses:				
Instruction	44,560			44,560
Academic support	15,529			15,529
Student services	10,686			10,686
Institutional support	22,299			22,299
Auxiliary activities	21,015			21,015
Research and public service	4,813			4,813
Total operating expenses	118,902	-	-	118,902
Decrease in net assets from operating activities	(2,883)	(309)	-	(3,192)
Nonoperating activities				
Net realized and unrealized gain on investments, net of endowment spending	53,460	67,478		120,938
Private gifts and grants	665	321	1,508	2,494
Change in present value of life income funds		318		318
Maturities of annuity and life income funds	1,056	(1,060)	4	-
Change in other post retirement benefits	(773)			(773)
Other	(16)	908	142	1,034
Transfers among net asset classes	(60)	(1,289)	1,349	-
Net assets released from restrictions	253	(253)		-
Increase in net assets from nonoperating activities	54,585	66,423	3,003	124,011
Net increase in net assets for the year	51,702	66,114	3,003	120,819
Net Assets, June 30, 2009	494,884	591,630	173,944	1,260,458
Net Assets, June 30, 2010	<u>\$ 546,586</u>	<u>\$ 657,744</u>	<u>\$ 176,947</u>	<u>\$ 1,381,277</u>

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 260,975	\$ 120,819
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	6,983	6,984
Loss on extinguishment of debt	1,074	-
Amortization of bond premium	(910)	(861)
Donor restricted gifts	(4,632)	(4,567)
Net unrealized and realized gains on investments	(290,655)	(159,328)
Change in student loan reserve	(66)	110
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	4,469	4,208
Change in deferred payments	1,345	(809)
Change in student deposits, payables and accruals	(346)	(2,195)
Net cash used by operating activities	(21,763)	(35,639)
Cash flows from investing activities		
Payments for property and equipment	(4,139)	(4,110)
Proceeds from sale of investments	694,814	686,063
Purchase of investments	(665,332)	(642,255)
Student loans and employee mortgages advanced	(432)	(1,396)
Payments on students loans and employee mortgages	2,034	2,070
Net cash provided by investing activities	26,945	40,372
Cash flows from financing activities		
Donor restricted gifts	4,632	4,567
Change in assets restricted to investment in property and equipment	56	(82)
Proceeds from bonds and notes payable	30,383	9,454
Payments on bonds and notes payable	(33,327)	(12,390)
Net cash provided by financing activities	1,744	1,549
Change in cash and cash equivalents	6,926	6,282
Cash and cash equivalents, beginning of year	25,507	19,225
Cash and cash equivalents, end of year	\$ 32,433	\$ 25,507
Interest paid	\$ 8,252	\$ 8,445
Non-cash capital expenditures in accounts payable	\$ 369	\$ 376

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(dollars in thousands)

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 2010 amounts have been reclassified in the College's consolidated financial statements to conform to the 2011 presentation.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

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 \$3,024 and \$2,501 were so designated for the years ended June 30, 2011 and 2010, 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 1.56% 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 \$2,203 and \$2,092 as of June 30, 2011 and 2010, 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.

Notes to the consolidated financial statements (continued)
(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 Level's 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, 2011, the date of the financial statements, through September 19, 2011, the date of the issuance of the financial statements for subsequent events. The College had no reportable subsequent events between June 30, 2011 and September 19, 2011.

2. Contributions Receivable

Contributions receivable at June 30, 2011 and 2010 were as follows:

Due in:	<u>2011</u>	<u>2010</u>
Less than one year	\$8,418	\$7,685
One to five years	6,324	8,781
More than five years	<u>6,405</u>	<u>7,743</u>
	21,147	24,209
Unamortized discount	(2,255)	(2,808)
Allowance for doubtful contributions	<u>(669)</u>	<u>(808)</u>
	<u>\$18,223</u>	<u>\$20,593</u>

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, 2011 and 2010.

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, 2011 and 2010. The College performs additional due diligence and reviews these for reasonableness. The College has assessed factors including, but not

Notes to the consolidated financial statements (continued)
(dollars in thousands)

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, 2011 and 2010 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, 2011 and 2010 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 2011 and 2010 was:

	Endowment and similar funds	Annuity and Life Income funds	Other	2011 Total	2010 Total
Investments, beginning of year	\$ 1,249,254	\$ 42,873	\$ 10,491	\$ 1,302,618	\$ 1,187,098
Contributions	5,229	2,041		7,270	5,804
Maturities of annuity and life income funds		(4,225)		(4,225)	(2,020)
Other		(4,674)	(882)	(5,556)	(140)
Transfers in	2,684		2,641	5,325	933
Transfers out	(5,197)			(5,197)	(11,783)
	2,716	(6,858)	1,759	(2,383)	(7,206)
Interest and dividends	22,912	1,379		24,291	14,935
Unrealized and realized gains and (losses)	284,172	6,696	(213)	290,655	159,328
Investment management fees	(4,676)			(4,676)	(4,408)
	302,408	8,075	(213)	310,270	169,855
Payments to annuity and life income beneficiaries		(819)		(819)	(804)
Endowment spending distribution					
Unrestricted	(44,992)			(44,992)	(44,518)
Temporarily Restricted	(903)			(903)	(1,807)
	(45,895)	(819)	-	(46,714)	(47,129)
Investments, end of year	\$ 1,508,483	\$ 43,271	\$ 12,037	\$ 1,563,791	\$ 1,302,618

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

Notes to the consolidated financial statements (continued)
(dollars in thousands)

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 as of June 30, 2011 and 2010, 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.
- 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

Notes to the consolidated financial statements (continued)
(dollars in thousands)

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, 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		30,017
Unrealized gains/(losses)	2,631	28,875	14,925	77,675	12,283		136,389
Net additions/(distributions)		(18,000)	15,857	(5,565)	(13,210)	(42)	(20,960)
Fair Value, June 30, 2011	<u>\$34,171</u>	<u>\$132,625</u>	<u>\$107,575</u>	<u>\$356,400</u>	<u>\$198,509</u>	<u>\$1,930</u>	<u>\$831,210</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

A summary of investments, measured in accordance with the *Fair Value Measurement* standard, as of June 30, 2010 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	\$ 21,355	\$ -	\$ -	\$ 21,355
Fixed Income	127,943		31,540	159,483
Public Equity	180,904	216,467	116,382	513,753
Real Assets		18,793	72,725	91,518
Private Equity			272,629	272,629
Marketable Alternatives			190,516	190,516
Total Endowment	330,202	235,260	683,792	1,249,254
Life income	42,873			42,873
Other	8,519		1,972	10,491
Total Investments	\$ 381,594	\$ 235,260	\$ 685,764	\$ 1,302,618

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, 2010 are as follows:

	Fixed Income	Equity	Real Assets	Private Equity	Marketable Alternatives	Other	Total
Fair Value, June 30, 2009	\$25,726	\$105,348	\$64,322	\$222,074	\$188,035	\$2,266	\$607,771
Realized gains/(losses)		2,386	769	(11,171)	4,250	16	(3,750)
Unrealized gains/(losses)	5,814	15,647	(6,925)	52,661	25,436		92,633
Net additions/(distributions)		(6,999)	14,559	9,065	(27,205)	(310)	(10,890)
Fair Value, June 30, 2010	<u>\$ 31,540</u>	<u>\$ 116,382</u>	<u>\$ 72,725</u>	<u>\$ 272,629</u>	<u>\$ 190,516</u>	<u>\$ 1,972</u>	<u>\$ 685,764</u>

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, 2011 and 2010 were:

	<u>2011</u>	<u>2010</u>
Private equity	\$ 118,073	\$ 129,523
Real estate	52,664	58,541
Natural resources	35,776	37,952
Total unfunded commitments	<u>\$ 206,513</u>	<u>\$ 226,016</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

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, 2011, management estimates that it could have liquidated within 30 days approximately \$732 million (unaudited) to meet short-term needs and provide investment flexibility.

The Board of Managers sets the level of distribution of endowment return annually. In fiscal years 2011 and 2010, the distribution of the endowment income exceeded the net yield (interest and dividends less fees) generated by endowment fund investments: therefore, \$28,803 and \$38,390, 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, \$11,609 and \$12,947 of net realized gains on endowments which have their earnings distributed for general purposes were included in unrestricted revenues in fiscal years 2011 and 2010, 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, 2011 and 2010 respectively:

	<u>Number of Units</u>	<u>Fair Value</u>	<u>Income Distribution</u>
June 30, 2011	2,375,922	\$636.18	\$19.84
June 30, 2010	2,369,999	\$528.20	\$20.10

4. Property and Equipment

Property and equipment at June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Land	\$4,927	\$4,927
Buildings and improvements	309,857	306,578
Construction in progress	448	-
Equipment	17,938	17,531
Works of art, historical treasures and similar assets	<u>4,591</u>	<u>4,466</u>
	337,761	333,502
Accumulated depreciation	<u>(105,021)</u>	<u>(98,287)</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

\$232,740 \$235,215

Interest payments totaling \$20 and \$0 were capitalized in 2011 and 2010, respectively.

5. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2011 and 2010 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, the conditional asset retirement obligation and conditional gifts.

	<u>2011</u>	<u>2010</u>
Conditional gift liability	\$10,000	\$10,000
Donors	10,443	9,932
Postretirement health benefit	8,657	9,233
Employees and former employees	5,369	3,986
Conditional asset retirement obligation	<u>990</u>	<u>963</u>
	<u>\$35,459</u>	<u>\$34,114</u>

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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	\$ 5,306	\$ 5,210
Actives fully eligible to retire	2,460	1,877
Retirees	<u>1,467</u>	<u>1,301</u>
Total	9,233	8,388
Service cost	420	373
Interest cost	466	463
Actuarial (gain) / loss	(1,252)	236
Benefits paid	(210)	(227)
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	4,756	5,306
Actives fully eligible to retire	2,318	2,460
Retirees	<u>1,583</u>	<u>1,467</u>
Total	<u>\$ 8,657</u>	<u>\$ 9,233</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

	<u>2011</u>	<u>2010</u>
Change in plan assets		
Employer contribution	\$ 210	\$ 227
Benefits paid	<u>(210)</u>	<u>(227)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Postretirement benefit obligation at end of year	\$ 8,657	\$ 9,233
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Funded status end of year	<u>\$ 8,657</u>	<u>\$ 9,233</u>
Current liability		
	297	302
Non-current liability		
	<u>8,360</u>	<u>8,931</u>
Total	<u>\$ 8,657</u>	<u>\$ 9,233</u>
Components of the net periodic postretirement benefit cost		
Service cost	\$ 420	\$ 373
Interest cost	466	463
Amortization of actuarial (gain) / loss	<u>45</u>	<u>4</u>
Total	<u>\$ 931</u>	<u>\$ 840</u>
OPEB changes other than net periodic postretirement benefit cost		
New actuarial (gain) / loss	\$ (1,252)	\$ (236)
2010 amortization of unrecognized amounts	<u>(45)</u>	<u>(4)</u>
Total	<u>\$ (1,297)</u>	<u>\$ (240)</u>
Unrecognized amounts and amortization amounts in the following year:		
Net actuarial (gain) / loss	<u>(1,138)</u>	<u>160</u>
Total	<u>\$ (1,138)</u>	<u>\$ 160</u>
Amortization amounts in following year (estimate)		
Net actuarial (gain) / loss	<u>(21)</u>	<u>-</u>
Total	<u>\$ (21)</u>	<u>\$ -</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

Assumptions and effects			
Medical trend rate next year		10.00%	8.00%
Ultimate trend rate		5.00%	5.00%
Year ultimate trend rate is achieved		2016	2013
Discount rate used to value end of year accumulated postretirement benefit obligation		5.48%	5.32%
Discount rate used to value net periodic postretirement benefit cost		5.32%	6.00%
Effect of a 1% increase in health care cost trend rate on			
Interest cost plus service cost	\$	169	\$ 168
Accumulated postretirement benefit obligation	\$	1,339	\$ 1,501
Effect of a 1% decrease in health care cost trend rate on			
Interest cost plus service cost	\$	(136)	\$ (135)
Accumulated postretirement benefit obligation	\$	(1,104)	\$ (1,229)
Measurement date		6/30/2011	6/30/2010

Estimated future benefit payments (net of employee contribution)

<u>Year Beginning July 1st</u>	<u>Employer Payment</u>
2011	297
2012	338
2013	385
2014	422
2015	468
2016 - 2020	2,990

6. Bonds and Notes Payable

Bonds and notes payable at June 30, 2011 and 2010 were:

	<u>2011</u>		<u>2010</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Swarthmore Borough Authority				
1998 Revenue Bonds	\$4,529	\$4,300	\$6,000	\$5,610
2001 Revenue Bonds	-	-	29,936	28,659
2002 Revenue Bonds	25,056	24,492	27,878	26,583
2006A Revenue Bonds	79,542	78,823	79,626	78,986
2008 Revenue Bonds	27,865	26,572	28,587	26,999
2009 Revenue Bonds	9,196	9,047	9,409	9,280
2011 Revenue Bonds	30,317	30,383	-	-
Other notes payable	<u>865</u>	<u>865</u>	<u>874</u>	<u>874</u>
Total bonds and notes payable	<u>\$177,370</u>	<u>\$174,482</u>	<u>\$182,310</u>	<u>\$176,991</u>

The College bond ratings were Aaa/AAA for the years ended June 30, 2011 and 2010.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

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. The 2002 Revenue Bonds have interest rates from 4.75% to 5.25% depending upon the maturity dates, which range from 2011 to 2020 in annual amounts ranging from \$2,050 to \$2,950. Interest is payable semi-annually. The 2002 Bonds maturing through September 15, 2012 are not subject to optional redemption prior to maturity. The 2002 Bonds maturing on or after September 15, 2012 are subject to redemption prior to maturity at the option of the Authority, upon the direction of the College, in whole at any time, or in part from time to time at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to the redemption date.

On July 11, 2001, the College issued \$93,290 aggregate principal amount of 2001 Revenue Bonds (2001 Bonds) through the Authority at a premium. The net proceeds of the 2001 Bonds were used to construct a new science center, a residence hall, various other renovations and capital improvements to the facilities of the College and architectural and engineering studies related to the planning of additional capital projects for the College. On December 20, 2006, \$63,970 of 4.4% and 5.5% term bonds due September 15, 2011 (priced to yield 4.46%) were advance refunded using proceeds from the 2006A Revenue Bonds. On June 29, 2011, \$29,320 of 5.0% term bonds due September 15, 2031 (priced to yield 5.27%) were refunded using proceeds from the 2011 Revenue Bonds.

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 ranging from 4.65% to 4.75% depending upon the maturity dates that range from 2011 to 2013 in amounts ranging

Notes to the consolidated financial statements (continued)
(dollars in thousands)

from \$1,370 to \$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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-2012	\$3,431	\$7,436	\$10,867
2012-2013	3,601	7,595	11,196
2013-2014	37,666	6,600	44,266
2014-2015	3,265	5,613	8,878
2015-2016	3,430	5,449	8,879

Interest paid on bonds and notes payable was \$8,252 and \$8,445 for the years ended June 30, 2011 and 2010, 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 \$4,663 in 2011 and \$4,542 in 2010.

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 \$618 and \$485 at June 30, 2011 and 2010 respectively. The College does not record transaction activity as revenue or expense. The investments are reported at fair value.

Notes to the consolidated financial statements (continued)
(dollars in thousands)

8. Net assets

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
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	<u>13,720</u>	<u>8,128</u>	<u>15,565</u>	<u>37,413</u>
	<u>\$628,075</u>	<u>\$834,746</u>	<u>\$179,431</u>	<u>\$1,642,252</u>

Net assets at June 30, 2010 were designated or allocated to:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment				
True Endowment		\$561,402	\$156,620	\$718,022
Term Endowment		66,288		66,288
Quasi Endowment	\$464,944			464,944
Annuity and life income	6,793	22,730	2,531	32,054
Student loans	1,836			1,836
Property and equipment				
Unexpended	6,098	(210)		5,888
Net investment in property and equipment	58,242			58,242
Other purposes	<u>8,673</u>	<u>7,534</u>	<u>17,796</u>	<u>34,003</u>
	<u>\$546,586</u>	<u>\$657,744</u>	<u>\$176,947</u>	<u>\$1,381,277</u>

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 \$2 and \$1,881 at June 30, 2011 and 2010 respectively.

Notes to the consolidated financial statements (continued)
(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, 2009	\$ 414,295	\$ 562,625	\$ 151,755	\$ 1,128,675
Contributions	1,354	1,000	3,339	5,693
Transfers	(5,941)	480	1,514	(3,947)
Interest and dividends	13,542		12	13,554
Unrealized and realized gains (losses)	90,620	65,392		156,012
Investment management fees	(4,408)			(4,408)
Endowment spending distribution	(44,518)	(1,807)		(46,325)
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	<u>\$ 544,505</u>	<u>\$ 802,874</u>	<u>\$ 161,104</u>	<u>\$ 1,508,483</u>

9. Expenses by Natural Classification

Expenses for the years ended June 30, 2011 and 2010 were incurred for the following:

	<u>2011</u>	<u>2010</u>
Compensation		
Faculty	\$31,553	\$30,521
Staff	39,692	38,045
Student	1,257	1,252
Amortization	193	169
Life income payments and other adjustments	1,970	2,028
Bookstore merchandise for resale	556	643
Dining services food	1,907	1,861
Equipment	3,291	2,204
Foreign study program expenses	2,694	2,448
Insurance	709	715
Interest	7,155	7,956
Library materials	2,178	2,065
Services, supplies and other	14,936	15,654
Real estate taxes	935	917
Travel	3,213	2,893
Telephone	48	58
Utilities	2,383	2,489
Depreciation	<u>6,983</u>	<u>6,984</u>
	<u>\$121,653</u>	<u>\$118,902</u>

Notes to the consolidated financial statements (continued)
(dollars in thousands)

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, 2011 and 2010, the College had outstanding commitments for construction contracts of \$1,243 and \$1,268, respectively.

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Neil R. Grabois '57, *Vice Chair*
Bennett Lorber '64, *Secretary*
Maurice G. Eldridge '61, *Assistant Secretary*
Suzanne P. Welsh, *Treasurer*
Lori Ann Johnson, *Assistant Treasurer*

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Harold Kalkstein '78
Giles K. Kemp '72
Elizabeth H. Scheuer '75
Salem D. Shuchman '84
Martha Spanninger '76

Current Term Expires May 2013

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Richard A. Barasch '76
Dulany Ogden Bennett '66
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Frederick W. Kyle '54
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Jorge Munoz '84
Tracey E. Patillo '90
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Carl Russo '79
Robin M. Shapiro '78
David W. Singleton '68
Thomas E. Spock '78
Danielle Toaltoan '07
Joseph L. Turner '73

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Susan S. Morrison '81

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Janet Smith Dickerson H'92
Jenny Hourihan Bailin '80
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Sibella Clark Pedder '64
Gustavo Schwed '84

Current Term Expires May 2015

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Nathaniel A. K. Erskine '10
Thomas W. T. Hartnett '94
Jane Lang '67
Lucinda Lewis '70
Bennett Lorber '64
James Lovelace '79
Christopher M. Niemczewski '74

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Eugene M. Lang '38
Julie Lange Hall '55
Jerome Kohlberg '46

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PRESIDENT'S STAFF

As of June 30, 2011

Rebecca Chopp, *President*
Stephen Bayer, *Vice President for
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James L. Bock III '90, *Dean of Admissions
and Financial Aid*
H. Elizabeth Braun, *Dean of Students*
Garikai Campbell '90, *Special Assistant
to the President, Associate Vice President
for Planning*
Maurice G. Eldridge '61, *Vice President for
College and Community Relations and
Executive Assistant to the President*
C. Stuart Hain, *Vice President
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Constance Hungerford, *Provost*
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CORPORATION AND BOARD OF MANAGERS