SWARTHMORE COLLEGE FINANCIAL REPORT 2007–2008

SWARTHMORE

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

FINANCIAL REPORT 2007–2008

Swarthmore College maintained its strong financial condition during the 2007–2008 fiscal year, which ended on June 30, 2008. The operating budget was balanced and met compensation and program priorities, a record amount of gifts was received, and progress was made on several important capital projects. In recognition of the College's financial strength, management quality, competitive admissions statistics, and fundraising success, the Moody's and Standard & Poor's rating agencies gave the College's tax-exempt bonds their highest ratings. Tempering this success, however, was the growing global credit crisis and its impact on the financial markets, which resulted in a $28.6 million reduction in the endowment to $1,412.6 million at the end of the fiscal year and further declines continuing into the 2008–2009 fiscal year.

The past year marked a shift to a new period in which higher education will face significant challenges. The disruptions in the credit markets, which began in 2007, gained momentum to become the worst global financial crisis since the Great Depression. Recovery from this crisis is predicted to be slow and painful. The College is preparing for negative or low investment returns on the endowment at the same time as students and their families have higher needs for financial assistance and donors may not be able to give as generously.

This report reviews events, activity, and financial results of the past fiscal year and discusses the changing climate and the challenges ahead. Longer-term statistical information is presented in Chart 1, and the audited financial statements appear following this report.

GOVERNANCE AND TRANSITIONS

The Board of Managers exercises its fiduciary duties for the College's financial and investment matters through its Finance Committee, the Audit Subcommittee of the Finance Committee, and the Investment Committee. Members of these committees are listed on the last page of this report. The College is fortunate to have alumnae/i with professional financial and investment expertise willing to serve on these committees.

The memberships of these committees have had much continuity from year to year, but some transition is a normal part of institutional governance. This past year, Jed Rakoff '64 ended his term on the Finance Committee. Two members' terms on the Investment Committee also ended this past year. J. Lawrence Shane '56 had served on the Investment Committee since 1969 and as chair from 1975 to 1983. Graham O. Harrison '47 had joined the Investment Committee in 1986 and served as chair from 1988 to 1999. The College greatly appreciates the service of all three of these individuals.

This past year, President Alfred H. Bloom announced that he will end his term on Aug. 31, 2009. He has been an active participant in nearly every meeting of the Finance and Investment Committees and the Audit Subcommittee. His expertise in financial and investment matters and commitment to stewardship of the College's resources has been invaluable in positioning the College well for the future.

COST OF HIGHER EDUCATION

The cost to educate a Swarthmore student in 2007–2008 was $81,073, as shown in Chart 2. A little more than half (53 percent) of this cost was paid for by the endowment and gifts.

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

	1970	1980	1990	2000	2007	2008
STUDENT CHARGES						
Average on-campus enrollment	1,097	1,298	1,281	1,356	1,376	1379
Average foreign-study enrollment[1]				80	86	79
Comprehensive charges ($)	3,435	7,080	19,450	31,690	43,532	45,700
Total expenditures and mandatory transfers, including financial aid ($000)	7,160	14,891	46,537	92,721	130,985	137,267
Per student ($)	6,527	11,472	36,329	64,569	89,593	94,147
Per student, excluding financial aid ($)	5,983	10,330	31,795	55,718	76,755	81,073
Student charges as percentage of budget/student, excluding financial aid	57	69	61	57	57	56
ADMISSIONS DATA						
Applications completed	2,332	1,866	3,233	3,956	5,242	6,121
Percentage accepted	23	40	32	24	18	16
Percentage enrolled (of those accepted)	57	44	34	39	39	39
FINANCIAL AID DATA						
Percentage of students receiving need-based Swarthmore scholarships	36	39	45	51	51	49
Average Swarthmore scholarship ($)	1,504	2,478	8,661	17,070	24,173	25,008
Average Swarthmore scholarship as percentage of charges	44	35	45	54	56	55
Average financial need ($)	N/A	4,108	12,580	22,922	30,163	31,199
Average Swarthmore scholarship as percentage of average need	N/A	60	69	74	80	80
GIFTS AND GRANTS RECEIVED[2]						
Annual giving ($000)	361	1,000	2,035	3,439	5,002	5,303
Other gifts and bequests ($000)	1,076	4,259	9,982	14,656	15,123	25,439
Government grants ($000)	321	1,493	2,092	2,014	1,669	1,469
Total ($000)	1,758	6,752	14,109	20,109	21,794	32,211
Annual Fund participation (%)	42.2	48.5	58.5	55.3	59.2	58.0
ENDOWMENT						
Original value ($000)	17,982	26,559	80,649	155,070	324,531	349,137
Market value ($000)	48,514	91,557	336,224	963,676	1,441,232	1,412,609
Unit market value ($)[3]	37.29	61.50	181.75	473.10	628.11	605.40
Distribution/unit ($)	1.41	2.20	6.44	14.77	22.35	23.21
DEBT OUTSTANDING ($000)	0	0	37,215	78,632	187,401	184,487

[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 received.
[3] Primary pool

About 40 percent was paid for by student tuition, room, and board (net of financial aid). Over many years, as the endowment has grown, it has funded larger scholarships; and more students have received scholarships as the percentage of the student body on aid has increased. As a result, the relative budget support from the endowment has grown, while the share of the budget paid with net student charges has declined.

Swarthmore's commitment to provide financial aid to meet the demonstrated need of all its students and to admit students without regard to their need is unusual. Although a small number of other institutions with large endowments can make this claim, the vast majority of institutions in this country do not meet students' full needs. It is not surprising, therefore, that the public is concerned about the cost of a college education, which in recent years has been increasing at a faster rate than many families' income. And for well-endowed institutions that provide generous aid, the public's question has been—why not more?

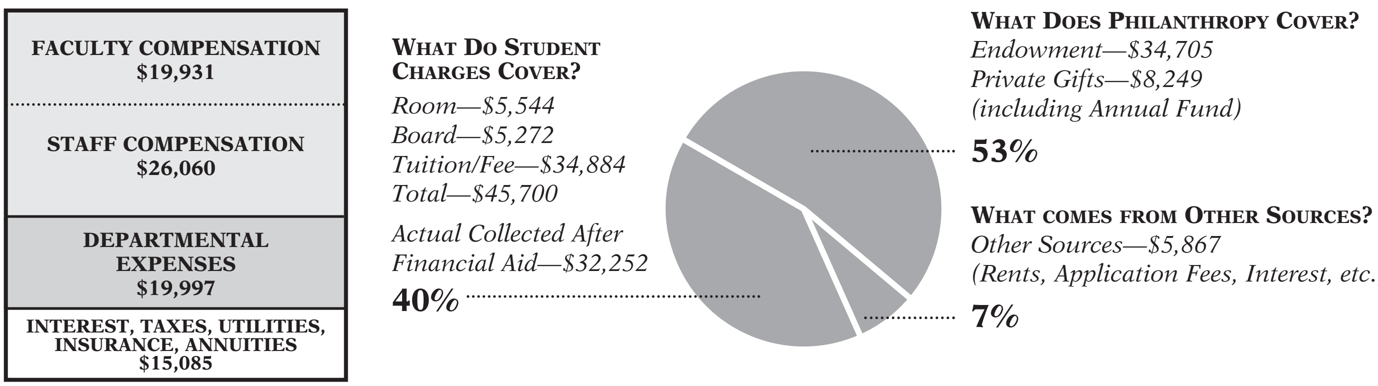
There is no question that it is expensive to provide a Swarthmore education. A student/faculty ratio of 8:1 reflects a program offering exceptional educational quality and opportunity. Swarthmore's range of student services and its investment in administrative services and facilities show a strong commitment to individual student growth. Student charges (tuition, fees, room, and board) in 2007–2008 were $45,700. Even a student not qualifying for financial aid paid just 56 percent of the total cost of his/her education.

This past year, the public's concern gave rise to increased governmental efforts for greater transparency of college costs, financial aid policy, and endowment information. In January, the United States Senate Committee on Finance sent a letter to all institutions with endowments over $500 million requesting additional information on these topics and the governance structure within which decisions are made. The College's response to the request included 10 years of data on enrollment, student charges, financial aid, student body composition, and endowment. The data showed an impressive history of Swarthmore's commitment to addressing the same concerns expressed by the Senate Finance Committee. A summary of conclusions from Swarthmore data appears in the box on page 4. The committee continues its analysis of the data it received.

Concurrently with the Senate review, there were some efforts among members of the House of Representatives to sponsor legislation that would require institutions to spend a minimum of 5 percent of their endowments each year. These efforts did not succeed, but they have not disappeared. Swarthmore is opposed to any governmental regulation of endowment spending. The appropriate endowment spending level is a decision involving very complex issues. It centers on considera-

CHART 2
FINANCING A SWARTHMORE EDUCATION 2007–2008

WHAT IS THE COST OF A YEAR AT SWARTHMORE?
$81,073
(per student, excluding financial aid)



tions of budget sustainability and equity between generations. With respect to sustainability, Swarthmore's objective is to provide a steadily increasing amount of endowment support to the budget year after year. Spending a certain mandated percentage of the endowment would result in amounts that could fluctuate from year to year, transferring the volatility in the financial markets into an institution's budget. With the endowment providing the largest portion of revenues to our budget, this would not work at Swarthmore. With respect to equity principles, a 5 percent mandated minimum might distort intergenerational equity. When financial markets are in distress, a 5 percent rate might be appropriate. However, when financial markets are inflated, a 5 percent rate might be imprudently high and hurt future generations.

Congress passed and President Bush signed into law a reauthorization of the Higher Education Act this past summer. As expected, it included increased funding for several Federal student aid programs. However, it also included new requirements for colleges to disclose greater cost and financial aid information to the public. Swarthmore supports disclosure and transparency and already provides significant amounts of information in its publications and on its Web site. This past year, the College joined with other independent colleges and universities to provide uniform data for families making college decisions. The National Association of Independent Colleges and Universities (NAICU) sponsored this effort. The Web site with this information can be found at www.ucan-network.org.

REVENUES AND EXPENSES

Total expenses for the 2007–2008 fiscal year were $118.2 million, an increase of 5.3 percent from the prior year. As mentioned in the earlier section, the total annual cost to educate a Swarthmore student was $81,073 last year. This reflected total expenses divided by the average

KEY POINTS IN ASSESSING SWARTHMORE COLLEGE'S COSTS, FINANCIAL AID, AND ENDOWMENT SPENDING

Based on data provided to the United States Senate Committee on Finance
February 2008

- A Swarthmore education is expensive, but no student pays the full cost.
- Philanthropy (through endowment and gifts) provides a subsidy for each student. It also provides a generous financial aid program for those who cannot afford student charges (tuition, fee, room, and board).
- Swarthmore's commitment to affordability and accessibility is longstanding. Swarthmore undertook efforts to reduce the loan element in student aid packages as early as the 1980s.
- The College announced it would award loan-free financial aid packages beginning with the 2008–2009 academic year.
- Swarthmore's endowment has grown well over the years both from investment returns and new gifts. This growth has made possible a proportional growth in financial aid.
- During the past 10 years, between one third and 40 percent of Swarthmore's endowment spending has been for scholarships. All of Swarthmore's scholarships are paid for from the endowment and other gifts.
- Swarthmore has been able to increase its endowment spending and scholarships every year.
- During the past 10 years, scholarships have increased faster than student charges. As a result, the average cost to an aided student has increased less than the "sticker price."
- Swarthmore provides scholarships to more students today than it did 10 years ago.
- Swarthmore's endowment spending guideline is designed around principles of intergenerational equity and budget sustainability so that 1) the above trends can continue for future generations of students and 2) the College's financial aid and other programs are protected from volatility in the financial markets.

enrollment of students. There was an average of 1,379 students on campus and 79 students in foreign study per semester for a total average enrollment of 1,458 students.

As mentioned above, Swarthmore's total student charges last year were $45,700 per student. This included tuition, student activities fee, room, and board and incorporated an increase of 5 percent over the prior year. About half of Swarthmore students qualified for financial aid. The average financial aid award amounted to $31,199 in scholarships, term-time work, and loans. The College limited its term-time work expectation to 7 to 8 hours per week, and the cumulative suggested student loan for all four years of a graduating senior last year was a modest $15,125. The average Swarthmore scholarship among financially aided students was $25,008.

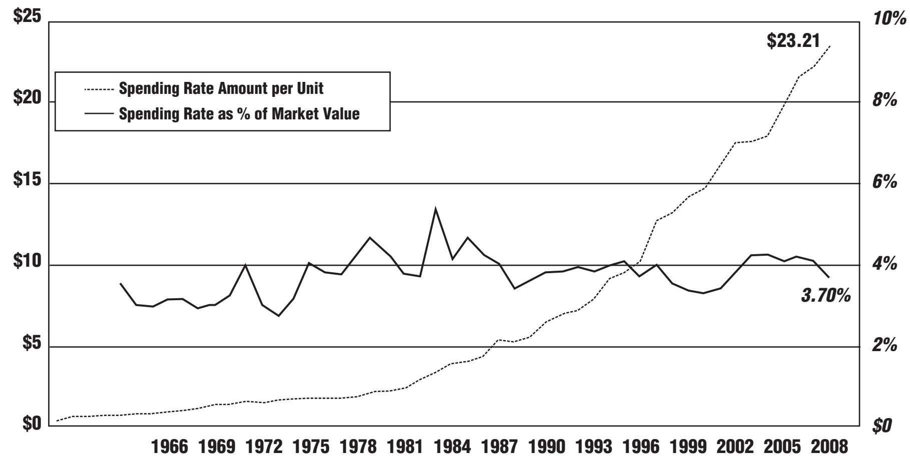
In December 2007, the Board of Managers approved an expansion of Swarthmore's financial aid program. Beginning with the 2008–2009 academic year, the College's financial aid awards would no longer include a loan component. Instead, additional scholarships would be granted in the loan-free awards. This decision grew out of the College's commitment to eliminate debt as an influence on a student's college experience or choice of career or graduate school. In addition, this stronger financial aid program was expected to further ensure access for all admitted students, particularly those from the middle class, and encourage diversity. Few institutions to date have been able to offer financial aid packages as generous as this. Swarthmore will pay for this enhancement through the endowment and additional fundraising.

The endowment distribution to support the budget last year was $50.6 million. As shown in Chart 3, this amounted to 3.7 percent of the value of the endowment at the beginning of the year. This is at the low end of the target range of endowment spending. The spending rate for the 2008–2009 fiscal year is expected to be about 4.25 percent, in the middle of the target range. With the growing credit crisis and turbulent financial markets, this level of endowment spending positioned the College relatively better for some potentially difficult years ahead. The College's objective is for endowment spending to increase each year as costs increase. Sustaining the budget while preserving intergenerational equity will inform our spending decisions in the period ahead.

Faculty and staff compensation (salaries plus benefits) continued to constitute the largest portion of College expenses (57 percent). Both faculty and staff compensation goals were met as the College's compensation was competitive with respective peer group averages. Fringe benefits continued to put pressure on the budget. Although health insurance cost increases have moderated somewhat, they still continued to be one of the fastest growing expenses. Likewise, the College's tuition benefit for dependent children of employees also continued to grow as larger numbers took advantage of the benefit.

In constructing the budget, maintaining the College's financial aid policies and meeting faculty and staff compensation targets were of the highest priority. In order to achieve these, controlling other costs was essential. Last year, there were some unavoidable increases. We had to pay for increased costs of the libraries (cost of books and periodicals), local real estate taxes, admissions outreach materials, student services, and athletics. The College budget has been under constraint for many years with almost no funds for new initiatives. As we go forward, we are mindful of the trade-off between budget constraints and erosion of educational quality and will seek to find the proper balance.

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



CAPITAL BUDGET

The College sets aside funds from the operating budget for technology and facilities capital needs. A goal in recent years has been to increase the annual allocation for technology, and this was done again in 2007–2008. The technology capital budget provides for replacement of the existing hardware and software infrastructure.

The facilities capital budget provides for the maintenance and renovation of the existing buildings at the College. Gifts and tax-exempt financing are necessary for new facilities. Last year, the construction of David Kemp Hall, the companion residence hall to Alice Paul Hall, neared completion. It opened in September 2008. Together, the two new residence halls house 150 students. These rooms principally meet the greater demand of students to live on campus and give the College more housing capacity. Both buildings have many environmentally favorable "green" features.

The College also continued to explore the construction of an inn and restaurant and retail and residential development to promote revitalization in the Swarthmore Borough town center. A developer, who would lease land from the College and manage the project, was selected last year; and work continues to determine the feasibility of such a project.

Lastly, the College reached an agreement with the Department of Justice regarding a project to more quickly improve access to services and facilities for individuals with disabilities. The College has long had a commitment to meet the requirements of the Americans with Disabilities Act (ADA) and completed many projects since the passage of the Act in 1990. The College hired an ADA compliance officer to develop the plan for the next several years to continue improvements to physical access, develop an emergency preparedness plan, install assistive learning systems, and provide accessibility information on the College's Web site.

GIFTS

The College received a record number of gifts in 2007–2008. The total of $32.2 million exceeded the $21.8 million in 2006–2007 and $28.4 million in 2005–2006. The annual fund reached $5.3 million. A total of 58 percent of all alumni contributed to the College last year.

The last fiscal year marked another transition for the College. In January 2008, Dan West, vice president for alumni and development, retired after nine years with the College. He provided leadership to the successful Meaning of Swarthmore capital campaign, which was concluded in 2006 and raised $245.5 million.

Note: A total of $34.5 million in gifts and grants was recognized in the financial statements according to generally accepted accounting principles. The difference between this and the $32.2 million discussed in this report is related primarily to the accounting treatment of pledges and government grants.

ADMISSIONS

Swarthmore's admissions statistics continued to grow even stronger. The College again set a record with 6,121 completed applications. Of these, 963 students were admitted for selectivity of 16 percent. The yield of those admitted was 39 percent, resulting in 372 incoming first-year students for fall 2008.

The Class of 2012 includes representatives from 42 states, the District of Columbia, Puerto Rico, the Virgin Islands, and 33 countries. The median verbal SAT score was 730, the median math SAT score was 710, and the median writing score was 720, for a total median of 2,160 on the new three-part SAT test.

ENDOWMENT

The market value of the endowment on June 30, 2008 was $1.413 billion, a decline of $28.6 million from the prior fiscal year. The investment return for the year was -0.2 percent. Although a negative return is not good news, the endowment outperformed its benchmark (85 percent equity index/15 percent bond index) for the fiscal year. These past 12 months, ending June 30, 2008, were difficult for the public equity markets as the Russell 3000 domestic stock index declined 12.7 percent and the MSCI AC World ex U.S. index of international equities declined 6.2 percent. As the global credit crisis gathered momentum, U.S. government bonds benefited from the flight to quality and generated positive returns.

The endowment's 15 percent allocation to U.S. government bonds is designed to provide stability and diversification in just such times as the last fiscal year. The positive returns on the bond allocations and the College's diversification into alternative assets (private equity, real assets, and marketable alternatives) helped the overall return. The private equity and marketable alternatives allocations also generated positive returns; and real assets, while negative, declined less than domestic and international public equities, which were the worst performing asset classes.

The annual retreat of the Investment Committee in June 2008 focused on the appropriate asset allocation for the future and adopted the strategic asset allocation targets shown in Chart 4. In 2001, the Committee began a multi-year effort to reach a more diversified asset allocation. Since that time, the target allocations to private equity, real assets, and marketable alternatives were achieved. This most recent review of the strategic asset allocation reviewed the progress made since 2001 and developed targets for the next four years. These reflect a continued globalization of the endowment with a shift toward more international equities and a slight increase in alternative assets. Private equity and marketable alternatives targets were each increased slightly, formalizing the existing allocation within the endowment, which grew because the College was able to gain access to excellent investment managers. The real assets allocation was increased to allow more natural resources investments. The target asset allocations, despite increasing diversification into non–publicly-traded assets, preserve substantial liquidity because a majority of the endowment remains in publicly-traded stocks and bonds. Chart 5 shows the historical asset allocation of the endowment.

Investment activity over the 2007–2008 fiscal year included commitments to 12 private equity partnerships, six real estate partnerships, and two energy partnerships. Relationships with two marketable alternatives investment managers were terminated and two new ones were hired. Two new public equities managers were hired. The College strives to hire the best firms and develop long-term relationships with them. We have been pleased with our access to top-tier firms and believe that the College's roster of managers is of the highest quality.

CHART 4
ASSET ALLOCATION

June 30, 2008

	Percent of Total	*Long-Term Target (%)*
Domestic Equity	27.5%	20.5%
International Equity	18.1	20.5
Marketable Alternatives	12.6	12.0
Private Equity	18.4	17.5
Real Estate	4.0	7.5
Natural Resources	1.8	7.5
Other Equity	1.2	2.0
Total Equity & Alternatives	83.6	87.5
U.S. Bonds	14.6	12.5
Cash Equivalents	1.8	0.0
Total Fund	**100.0**	**100.0**

CHART 5
SWARTHMORE COLLEGE ENDOWMENT
HISTORY OF ASSET ALLOCATION

	1960	**1970**	**1980**	**1990**	**2000**	**2007**	**2008**
Common Stocks							
Domestic Stocks (%)	73	80	81	56	55	34	28
International Stocks (%)	0	0	0	13	20	20	18
Private Equity (%)	0	0	0	5	3	13	18
Marketable Alternatives (%)	0	0	0	3	3	11	13
Real Assets (%)	6	3	3	2	1	6	6
Fixed Income/Cash (%)	21	17	16	21	18	16	17
	100	100	100	100	100	100	100

DEBT FINANCING

The College's total debt outstanding at June 30, 2008 was $184.5 million.

Swarthmore refinanced its auction rate bonds into a fixed rate note in 2008, an action which was necessitated by the changing credit conditions essentially eliminating the market for auction rate notes. In 2006, the College issued $27.6 million in auction rate notes to finance the cost of construction of David Kemp Residence Hall. These auction rate notes had variable interest rates, set weekly through an auction process. Disruptions in the credit markets created a situation in which buyers of auction rate notes moved to other more liquid investments as they realized that auction rate notes did not provide liquidity on demand. Interest rates on auction notes then increased to unattractive levels, and the College had no choice but to refinance those notes.

In May, the College issued a $25.4 million term bond maturing in five years to refinance the auction rate notes. The Moody's rating agency reaffirmed its Aaa rating on the bonds, and Standard & Poor's rating agency upgraded the bonds to its highest rating of AAA. The criteria the ratings agencies require before assigning these highest ratings include stable enrollment, admissions selectivity and flexibility, good operating results, strong cash and investment levels relative to debt, and successful fundraising.

IMPACT OF GLOBAL CREDIT CRISIS

With prudent, risk-controlled endowment, cash, and debt management policies, the College was reasonably positioned for the global credit crisis that began in summer 2007. We expect these policies will aid us in navigating through a recession and continued difficult financial conditions.

The fundamental principles of the College's endowment management are 1) to have a prudent, diversified endowment asset allocation and 2) to hire top quality investment managers to invest funds within designated asset categories. The endowment maintains a U.S. government bond allocation to protect in times when equity markets are falling. Other assets are diversified among publicly traded equity securities, private equity, marketable alternatives, and real assets. There is global diversification within these asset classes. The majority of the assets in the endowment are readily sold, so there is ample liquidity. The College is not forced to sell assets at depressed prices and can take advantage of opportunities created by market disruptions.

The investment firms hired to invest endowment assets possess sound investment strategies implemented by seasoned teams of investment professionals with integrity and good investment results. The endowment's public equity managers focus on quality and value and, thus, typically perform better than their benchmarks in difficult times. The marketable alternatives managers' strategies employ limited leverage. The private equity and real asset firms rank in the top tiers.

The credit crisis has not only affected the endowment. It has also had an impact on the College's cash investments and the structure of its debt. The College moved the majority of its operating cash to U.S. Treasury investments early in the crisis, thus avoiding potential losses on these investments. As mentioned above, the only variable rate debt held by the College was refinanced to fixed rate last spring, thus eliminating exposure to disruption in the variable rate debt markets.

In summary, the College's financial condition, while certainly not immune to conditions in the financial markets, is relatively better positioned than many institutions. Both endowment and operating cash investments have been selected to be of high quality; the overall asset allocation limits risk and preserves liquidity. Interest rate risk to the budget from variable rate debt has been eliminated. The College's endowment spending guideline is designed to sustain endowment spending and, thus, budget stability through difficult times. The College's endowment spending rate was at the low end of its range during the 2007–2008 fiscal year when the credit crisis began. With the prospect of slower growth or recession over the next few years, we expect the spending rate to increase.

Last year, an intensive planning effort was underway on campus. A Planning Steering Committee, assisted by eight specific planning groups, began the work to develop the College's priorities for the next decade. Part of this effort was to review the accomplishments of the past decade in which a successful capital campaign and above-average investment returns provided the resources for a period of growth in faculty and curriculum, staff and services, new buildings, and financial aid. The planning effort will continue to define new priorities, which will help Swarthmore maintain the leadership position in liberal arts education that it has had under President Alfred H. Bloom. The College's next president will lead this process to conclusion. In the meantime, financial conditions will make it difficult to consider new enhancements in the near term. The next few years will require some thoughtful planning for the future to weather the currently difficult financial environment and to prepare for the return of more benign economic conditions.

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 2007–2008 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 Subcommittee of the Finance 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, 2008, and further, that the financial statements fairly represent the financial condition of the College as of June 30, 2008 and the operating results and cash flows for the year ended June 30, 2008.

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

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, 2008 and 2007, 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 19, 2008

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as of
June 30, 2008 and 2007
(in thousands)

ASSETS	2008	2007
Cash and cash equivalents	$ 24,603	$ 11,739
Accounts receivable, net	716	1,478
Prepaid expenses and inventories	3,961	2,989
Accrued interest receivable	2,495	3,118
Collateral on loaned endowment securities	–	104,532
Contributions receivable	25,258	19,477
Student loans receivable, net	3,173	3,089
Employee mortgages receivable	15,279	14,234
Assets restricted to investment in property and equipment	10,391	23,394
Property and equipment, net	236,306	226,393
Investments, at market		
Endowment	1,412,609	1,339,497
Loaned endowment securities	–	101,735
Life income and annuity	46,524	47,547
Other	10,902	26,798
Total assets	**$1,792,217**	**$1,926,020**
LIABILITIES		
Accrued compensation	$ 6,840	$ 6,324
Payables and other accruals	10,098	9,895
Loan of collateral on loaned endowment securities	–	104,532
Student deposits	1,816	1,660
Deferred payments and other liabilities	37,449	34,829
Refundable government loan funds	1,742	1,742
Bonds and notes payable	184,487	187,401
Total liabilities	**242,432**	**346,383**
NET ASSETS		
Unrestricted	$ 569,159	$ 566,549
Temporarily restricted	814,309	861,092
Permanently restricted	166,317	151,996
Total net assets	**1,549,785**	**1,579,637**
Total liabilities and net assets	**$1,792,217**	**$1,926,020**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended
June 30, 2008
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008
Operating revenues:				
Student tuition and fees	$ 52,016	$	$	$ 52,016
Room and board	14,070			14,070
Less student aid	(19,063)			(19,063)
Net student tuition and fees	47,023	–	–	47,023
Revenues from investments				
Endowment spending distribution	50,600	2,414		53,014
Other	2,125			2,125
Private gifts and grants	12,027	6,619		18,646
Government grants	900	773		1,673
Other additions	6,972	1,083		8,055
Transfers among net asset classes	157	(157)		–
Net assets released from restrictions	4,857	(4,857)		–
Total operating revenue	**124,661**	**5,875**	–	**130,536**
Operating expenses:				
Instruction	42,924			42,924
Academic support	15,695			15,695
Student services	11,018			11,018
Institutional support	23,486			23,486
Auxiliary activities	20,630			20,630
Research and public service	4,451			4,451
Total operating expenses	**118,204**	–	–	**118,204**
Increase in net assets from operating activities	**6,457**	**5,875**	–	**12,332**
Nonoperating activities:				
Net realized and unrealized loss on investments, net of endowment spending	(4,568)	(51,213)		(55,781)
Private gifts and grants	1,526	806	11,878	14,210
Change in present value of life income funds		(1,640)		(1,640)
Maturities of annuity and life income funds	661	(661)		–
Loss on retirement of debt	(286)			(286)
Other	305	853	155	1,313
Transfers among net asset classes	(1,718)	(570)	2,288	–
Net assets released from restrictions	233	(233)		–
Increase/(decrease) in net assets from nonoperating activities	**(3,847)**	**(52,658)**	**14,321**	**(42,184)**
Net increase/(decrease) in net assets for the year	**2,610**	**(46,783)**	**14,321**	**(29,852)**
Net Assets, June 30, 2007	**566,549**	**861,092**	**151,996**	**1,579,637**
Net Assets, June 30, 2008	**$569,159**	**$814,309**	**$166,317**	**$1,549,785**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended
June 30, 2007
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2007
Operating revenues:				
Student tuition and fees	$ 49,781	$	$	$ 49,781
Room and board	13,457			13,457
Less student aid	(18,769)			(18,769)
Net student tuition and fees	44,469	–	–	44,469
Revenues from investments				
Endowment spending distribution	48,606	2,261		50,867
Other	2,005			2,005
Private gifts and grants	12,006	1,352		13,358
Government grants	796	719		1,515
Other additions	6,473	979		7,452
Transfers among net asset classes	157	(157)		–
Net assets released from restrictions	5,010	(5,010)		–
Total operating revenue	**119,522**	**144**	–	**119,666**
Operating expenses:				
Instruction	40,849			40,849
Academic support	14,808			14,808
Student services	10,167			10,167
Institutional support	23,630			23,630
Auxiliary activities	19,104			19,104
Research and public service	3,658			3,658
Total operating expenses	**112,216**	–	–	**112,216**
Increase in net assets from operating activities	**7,306**	**144**	–	**7,450**
Nonoperating activities:				
Net realized and unrealized gain on investments, net of endowment spending	61,837	123,476		185,313
Private gifts and grants	1,134	1,009	5,585	7,728
Change in present value of life income funds		(815)		(815)
Maturities of annuity and life income funds	27	(262)	235	–
Loss on retirement of debt	(2,030)			(2,030)
Other	(341)	531	128	318
Transfers among net asset classes	(2,412)	(728)	3,140	–
Net assets released from restrictions	536	(536)		–
Increase in net assets from nonoperating activities	**58,751**	**122,675**	**9,088**	**190,514**
Net increase in net assets for the year	**66,057**	**122,819**	**9,088**	**197,964**
Net Assets, June 30, 2006	**500,492**	**738,273**	**142,908**	**1,381,673**
Net Assets, June 30, 2007	**$566,549**	**$861,092**	**$151,996**	**$1,579,637**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended
June 30, 2008 and 2007
(in thousands)

	2008	2007
Cash flows from operating activities		
Change in net assets	$(29,852)	$197,964
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	6,525	6,779
Loss on extinguishment of debt	286	2,030
Loss on disposal of property and equipment	–	719
Amortization of bond premium	(345)	(441)
Gifts received for long-term investments	(14,210)	(7,728)
Net unrealized and realized (gains) and losses	21,888	(220,659)
Change in student loan reserve	(39)	(66)
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, accrued interest receivable, prepaid expenses and inventories	(5,957)	5,967
Change in student deposits, payables and accruals	(632)	1,269
Net cash used by operating activities	**(22,336)**	**(14,166)**
Cash flows from investing activities		
Payments for property and equipment	(14,930)	(11,368)
Increases in assets restricted to investment in property and equipment	(31,070)	(29,217)
Reductions in assets restricted to investment in property and equipment	44,074	6,496
Proceeds from sale of investments	648,144	1,043,669
Purchase of investments	(624,490)	(1,029,038)
Student loans and employee mortgages advanced	(2,172)	(2,619)
Payments on students loans and employee mortgages	1,080	1,574
Net cash provided by/(used) by investing activities	**20,636**	**(20,503)**
Cash flows from financing activities		
Gifts received for long term investment	14,210	7,728
Change in deferred payments	2,620	2,201
Proceeds from bonds and notes payable	28,228	106,325
Payments on bonds and notes payable	(30,494)	(81,756)
Net cash provided by financing activities	**14,564**	**34,498**
Change in cash and cash equivalents	**12,864**	**(171)**
Cash and cash equivalents, beginning of year	11,739	11,910
Cash and cash equivalents, end of year	**$ 24,603**	**$ 11,739**
Non-cash capital expenditures in accounts payable	$ 1,508	$ 1,390

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and 2007 (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 accordance with Statement of Financial Accounting Standards No. 117, *"Financial Statements of Not-for-Profit Organizations"* ("SFAS No. 117").

SFAS 117 requires 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 or may otherwise be 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. Fund-raising expenses are not disclosed since they are not material.

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. Actual results could differ from those estimates.

Operating Measure
During 2008, the College adopted an operating measure in its presentation of the Consolidated Statements of Activities.

Nonoperating activities primarily reflect increases and decreases in net assets associated with long term investments, the changes in the present values and maturities of life income funds, and private gifts and grants to be used for facilities, equipment or life income funds or to be invested in the College's endowment. Net assets released from restrictions in the nonoperating activities include matured planned giving agreements and other reclassifications. Operating activities include the endowment spending distribution and all other revenues and expenses of the College.

Reclassification
Certain 2007 amounts have been reclassified in the consolidated financial statements to conform to the 2008 presentation. The 2007 Statement of Activities has been reclassified to reflect the presentation of the operating measure adopted during 2008.

Cash Equivalents
Cash equivalents are readily convertible to cash and have a maturity date of three months or less. Pooled endowment fund cash equivalents invested with managers are classified as investments.

Investments
The College's investments are recorded in the following manner:

Investments	Values as Recorded
Publicly traded equity and fixed income securities	
Separately managed	At quoted market value
Commingled funds	At quoted market value or fair value as determined by investment managers and reviewed for reasonableness by the College.
Private equity and real asset limited partnerships	Estimated fair value determined by the general partner, and reviewed for reasonableness by the College.
Other nonmarketable investments	Estimated fair value determined by the investment manager of commingled funds and reviewed for reasonableness by the College.

Realized gains or losses on sales of securities are based on average cost.

The majority of private equity and real asset limited partnerships are carried at estimated fair value provided by the general partners as of March 31, 2008 and 2007, as adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2008 and 2007, respectively. The College reviews the amounts recorded for reasonableness and considers subsequent financial information received from the general partners for the periods ending June 30, 2008 and 2007.

The College's interests in commingled funds of other nonmarketable investments are carried at fair value as determined by the investment managers and reviewed for reasonableness by the College at June 30, 2008 and 2007.

The College believes that the carrying amounts of its private equity, real asset, and other nonmarketable investments are reasonable estimates of fair value as of June 30, 2008 and 2007. Because private equity, real asset, and other nonmarketable investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. The amount of gain or loss associated with these investments is reflected in the accompanying consolidated financial statement.

Endowment Spending Distribution

The Board of Managers sets the level of distribution of endowment return annually. The objective of the endowment spending policy 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.

In fiscal years 2008 and 2007, the distribution of the endowment income exceeded the net yield (interest and dividends less fees) generated by endowment fund investments; therefore, $33,892 and $35,345, 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. 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, $10,632 and $8,781 of net realized gains on endowments that have their earnings distributed for unrestricted purposes were included in unrestricted revenues in fiscal years 2008 and 2007, respectively.

Fair Value of Financial Instruments

The fair value of cash and cash equivalents, employee mortgages, and receivables approximate their respective carrying amounts. The fair value of cash equivalents is based on the quoted market price of the underlying securities; the fair values of bonds and notes payable are estimated based primarily upon quoted market prices of similar bonds. The fair values of bonds and notes payable are disclosed in footnote 6. Student loans receivable, which are primarily federally sponsored student loans, are carried at cost, which approximates fair value.

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 $9,757 and $9,269 were so designated for the years ended June 30, 2008 and 2007, respectively.

Works of art, historical treasures, and similar assets have been recognized at their estimated fair value 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 included 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 risk-free rate in the period contributions are recognized.

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 $2,075 and $1,871 as of June 30, 2008 and 2007, respectively.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS 157 defines the term fair value, establishes a framework for measuring it within generally accepted accounting principles and expands disclosures about its measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 at which time the College will be required to categorize and disclose certain assets and liabilities, including investments, at fair value. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (at exit price) in the principal market for the asset or liability.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007.

In August 2008, FASB issued Staff Position 117-1, which will require enhanced disclosure requirements about an organization's endowment funds. The statement will impact the College for the year ended June 30, 2009.

Management is evaluating the impact these pronouncements will have on the financial statements for the fiscal year ending June 30, 2009.

2. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2008 and 2007 were as follows:

Due in:	2008	2007
Less than one year	$8,320	$8,803
One to five years	11,523	10,345
More than five years	10,582	2,955
	30,425	22,103
Unamortized discount	(3,998)	(1,730)
Allowance for doubtful contributions	(1,169)	(896)
	$25,258	$19,477

3. INVESTMENTS

Endowment investments include the College's permanent endowment 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 is based on the present value of future payments discounted at rates that vary by participant from 3.6% to 11.6% and the Annuity 2000 Mortality Table. The actuarial liability for the unitrusts is based on the present value of future payments discounted at rates that vary by trust from 5% to 9% and the Annuity 2000 Mortality Table.

The fair value and cost of investments held at June 30, 2008 and 2007 were:

	2008		2007	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Equities	$662,319	$544,284	$799,717	$549,433
Fixed income	248,077	215,204	261,810	247,650
Short-term investments	31,762	31,762	30,284	30,284
Private equity, real assets, and other nonmarketable investments	527,877	462,708	423,766	367,871
	$1,470,035	$1,253,958	$1,515,577	$1,195,238

Investments at June 30, 2007 with a market value of $101,735 were loaned to a broker for a fee. At June 30, 2007 the borrower provided $104,532 of security collateral for the loaned securities. The College accounts for this transaction in accordance with SFAS No. 140, *Accounting for Transfers and Servicing Financial Assets and Extinguishment of Debt.* This transaction was accounted for as a non-cash investing activity for purposes of the accompanying Statements of Cash Flows for June 30, 2007. The College was indemnified against borrower default by State Street Bank and Trust Company. The College had no securities on loan as of June 30, 2008.

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, 2008 and 2007 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2008	2,338,372	$605.40	$23.21
June 30, 2007	2,299,417	$628.11	$22.35

Investment activity for fiscal years 2008 and 2007 was:

	Endowment and Similar Funds	Annuity and Life Income Funds	Other
Investments, June 30, 2006	$1,245,282	$44,866	$19,402
Contributions	8,164	2,177	
Maturities of annuity and life income funds	421	(2,263)	
Other			(799)
Transfers in	8,075		7,825
Transfers out	(2,765)		
	13,895	(86)	7,026
Interest and dividends	21,932	635	
Unrealized and realized gains (losses)	217,279	2,991	389
Investment management fees	(5,571)		(19)
	233,640	3,626	370
Payments to annuity and life income beneficiaries		(859)	
Endowment spending			
Distribution			
Unrestricted	(48,680)		
Temporarily restricted	(2,792)		
Permanently restricted	(113)		
	(51,585)	(859)	–
Investments, June 30, 2007	$1,441,232	$47,547	$26,798

June 30, 2008 and 2007 (dollars in thousands)

Investment activity for the fiscal years 2008 and 2007 (continued):

	Endowment and Similar Funds	Annuity and Life Income Funds	Other
Investments, June 30, 2007	$1,441,232	$47,547	$26,798
Contributions	11,986	2,078	
Maturities of annuity and life income funds		(661)	
Other			(860)
Transfers in	15,328		
Transfers out	(2,885)		(14,811)
	24,429	1,417	(15,671)
Interest and dividends	25,493	1,003	
Unrealized and realized gains (losses)	(19,290)	(2,383)	(215)
Investment management fees	(5,172)		(10)
	1,031	(1,380)	(225)
Payments to annuity and life income beneficiaries		(1,060)	
Endowment spending			
Distribution			
Unrestricted	(50,677)		
Temporarily restricted	(3,267)		
Permanently restricted	(139)		
	(54,083)	(1,060)	–
Investments, June 30, 2008	$1,412,609	$46,524	$10,902

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2008 and 2007 consisted of the following:

	2008	2007
Land	$4,973	$2,792
Buildings and improvements	295,643	280,353
Construction in progress	–	1,785
Equipment	15,845	15,216
Works of art, historical treasures, and similar assets	4,406	4,353
	320,867	304,499
Accumulated depreciation	(84,561)	(78,106)
	$236,306	$226,393

Interest payments totaling $70 and $61 were capitalized in 2008 and 2007, respectively.

5. DEFERRED PAYMENTS AND OTHER LIABILITIES

Deferred payments and other liabilities at June 30, 2008 and 2007 consisted of the present value of future payments due to or on behalf of employees and former employees under retirement programs and donors under annuity and life income programs, the conditional asset retirement obligation and conditional gifts.

	2008	2007
Employees and former employees	$13,322	$12,356
Conditional gift liability	10,000	10,000
Donors	13,211	11,571
Conditional asset retirement obligation	916	902
	$37,449	$34,829

6. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2008 and 2007 were:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Swarthmore Borough Authority				
1998 Revenue Bonds	$17,651	$17,285	$18,737	$18,415
2001 Revenue Bonds	29,482	28,553	29,987	28,496
2002 Revenue Bonds	30,999	30,587	32,430	32,510
2006A Revenue Bonds	75,080	79,312	76,050	79,475
2006B Revenue Bonds		–	27,600	27,600
2008 Revenue Bonds	27,308	27,855	–	–
Other notes payable	895	895	905	905
Total bonds and notes payable	$181,415	$184,487	$185,709	$187,401

The College bond rating was Aaa/AAA and Aaa/AA+ for the years ended June 30, 2008 and 2007, respectively.

On April 30, 2008, the College issued $25,360 aggregate principal amount of 2008 Revenue Bonds (2008 Bonds) through the Swarthmore Borough Authority (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 December 20, 2006, the College issued $27,600 aggregate principal amount of 2006B variable auction rate notes (2006B Bonds) through the Authority to finance the construction of a new residence hall and various capital projects over the next two years. Debt service on the 2006B Bonds was set and paid based on results of a weekly auction process with the principal to mature in 2036. On May 1, 2008, the 2006B Bonds were refunded using proceeds from the 2008 Revenue Bonds.

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 3.2% to 5.25% depending upon the maturity dates, which range from 2008 to 2020 in annual amounts ranging from $1,820 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. The 2001 Revenue Bonds which remain outstanding are comprised of $29,320 of 5.00% term bonds due September 15, 2031 (priced to yield 5.27%) with interest payable semi-annually of $1,466 from 2007 through 2030 with a final payment of $30,053 due in 2031.

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 that remain outstanding have interest rates ranging from 4.65% to 5.25% depending upon the maturity dates that range from 2008 to 2028 in amounts ranging from $415 to $1,495. The 1998 Revenue Bonds are collateralized by a pledge of all unrestricted College revenues. The 1998 Revenue Bonds maturing on or after September 15, 2018 are subject to redemption at the option of the College on or after September 15, 2008 at a redemption price of 100%.

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

	Principal	Interest	Total
2008–2009	$3,005	$8,457	$11,462
2009–2010	3,130	8,492	11,622
2010–2011	3,275	8,349	11,624
2011–2012	3,431	8,187	11,618
2012–2013	3,601	8,016	11,617

Interest paid on bonds and notes payable was $8,391 and $7,301 for the years ended June 30, 2008 and 2007, respectively.

7. RETIREMENT BENEFITS

Retirement benefits for all eligible employees of the College are individually funded and vested under a defined contribution program 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 $4,347 in 2008 and $4,107 in 2007.

During fiscal year 2003, the College initiated a 457 nonqualified deferred compensation plan for senior management employees. The deferred compensation 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 $479 and $556 at June 30, 2008 and 2007, respectively. The College does not record transaction activity as revenue or expense. The fund's investments are reported at fair value.

8. NET ASSETS

Net assets at June 30, 2008 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Long-term investment				
Endowment	$484,988	$783,054	$144,567	$1,412,609
Annuity and life income	7,994	22,023	2,817	32,834
Student loans	1,778			1,778
Property and equipment				
Unexpended	(508)	769		261
Net investment in property and equipment	62,476			62,476
Other purposes	12,431	8,463	18,933	39,827
	$569,159	$814,309	$166,317	$1,549,785

Net assets at June 30, 2007 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Long-term investment				
Endowment	$477,235	$827,413	$136,584	$1,441,232
Annuity and life income	8,357	25,803	2,388	36,548
Student loans	1,658			1,658
Property and equipment				
Unexpended	(209)	483		274
Net investment in property and equipment	64,500			64,500
Other purposes	15,008	7,393	13,024	35,425
	$566,549	$861,092	$151,996	$1,579,637

June 30, 2008 and 2007 (dollars in thousands)

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.

9. EXPENSES BY NATURAL CLASSIFICATION

Expenses for the years ended June 30, 2008 and 2007 were incurred for the following:

	2008	2007
Compensation		
Faculty	$ 29,060	$ 28,100
Staff	37,996	34,931
Student	1,170	1,129
Amortization	193	129
Life income payments and other adjustments	2,242	2,152
Bookstore merchandise for resale	760	767
Dining services food	1,763	1,687
Equipment	3,479	4,526
Foreign study program expenses	2,527	2,369
Insurance	726	773
Interest	8,366	6,914
Library materials	2,118	2,051
Services, supplies and other	14,484	11,998
Income taxes	-	1,658
Real estate taxes	855	765
Travel	2,854	2,661
Telephone	85	77
Utilities	3,001	2,750
Depreciation	6,525	6,779
	$118,204	$112,216

10. INCOME TAX

The College has been granted tax-exempt status as a nonprofit 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).

Effective July 1, 2007, the College adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. No adjustments to the financial statements were required as a result of the implementation of FIN 48.

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

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, 2008 and 2007, the College had outstanding capital commitments to limited partnerships of $235,901 and $207,292, respectively.

As of June 30, 2008 and 2007, the College had outstanding commitments for construction contracts of $4,955 and $10,647, respectively.

CORPORATION AND BOARD OF MANAGERS

THE CORPORATION
Barbara Mather ’65, *Chair*
Neil Grabois ’57, *Vice Chair*
Pamela Taylor Wetzels ’52, *Secretary*
Maurice G. Eldridge ’61, *Assistant Secretary*
Suzanne Welsh, *Treasurer*
Lori Ann Johnson, *Assistant Treasurer*

BOARD OF MANAGERS

Current Term Expires May 2009
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Dulany Ogden Bennett ’66
Mark F. Dingfield ’01
John D. Goldman ’71
Frederick W. Kyle ’54
Susan B. Levine ’78
Wilma Lewis ’78
Anne R. Lloyd-Jones ’79
Lawrence J. Richardson ’78
John A. Riggs ’64
Carl Russo ’79
Salem Shuchman ’85
David W. Singleton ’68
Thomas E. Spock ’78
Sujatha A. Srinivasan ’01
Pamela Taylor Wetzels ’52

Current Term Expires June 2009
Kevin F. F. Quigley ’74

Current Term Expires May 2010
Smith Arekapudi ’99
Janet Smith Dickerson H’01
Eugénie I. Gentry ’77
Bruce Jay Gould ’54
Sibella Clark Pedder ’64

Current Term Expires May 2011
Eric S. Adler ’86
Jacob J. Krich ’00
Jane Lang ’67
Bennett Lorber ’64
Christopher M. Niemczewski ’74
Catherine Rivlin ’79

Current Term Expires May 2012
David Gelber ’63
Neil Grabois ’57
Samuel L. Hayes III ’57
Harold Kalkstein ’78
Giles K. Kemp ’72
Elizabeth H. Scheuer ’75
Marge Pearlman Scheuer ’48
Martha Spanninger ’76

Emeriti
Julie Lange Hall ’55
Jerome Kohlberg ’46
Eugene M. Lang ’38
Elizabeth J. McCormack
J. Lawrence Shane ’57
Sue Thomas Turner ’35
Richard B. Willis ’33

FINANCE COMMITTEE
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Eugénie I. Gentry ’77
Frederick W. Kyle ’54
Barbara W. Mather ’65
Lawrence R. Richardson ’78
Elizabeth H. Scheuer ’75
David W. Singleton ’68
Sujatha A. Srinivasan ’01

AUDIT SUBCOMMITTEE
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Lawrence R. Richardson ’78
David W. Singleton ’68
Thomas E. Spock ’78

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Mark W. Harmeling ’74
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Susan B. Levine ’78
Corey Mulloy ’94
Christopher M. Niemczewski ’74
Mark R. Pattis ’75
Thomas E. Spock ’78

PRESIDENT’S STAFF
As of June 30, 2008
Alfred H. Bloom, *President*
Stephen Bayer, *Vice President for Development and Alumni Relations*
James L. Bock III ’90, *Dean of Admissions and Financial Aid*
Maurice G. Eldridge ’61, *Vice President for College and Community Relations and Executive Assistant to the President*
Constance Hungerford, *Provost*
C. Stuart Hain, *Vice President for Facilities and Services*
James Larimore, *Dean of Students*
Suzanne P. Welsh, *Vice President for Finance and Treasurer*
Melanie Young, *Vice President for Human Resources*