SWARTHMORE COLLEGE FINANCIAL REPORT 2009–2010

SWARTHMORE

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SWARTHMORE COLLEGE • 500 COLLEGE AVENUE • SWARTHMORE PA 19081
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FINANCIAL REPORT 2009–2010

Swarthmore College's financial position remained strong in 2009-2010 despite the challenges of the economic downturn now known as the Great Recession. Swarthmore's history of prudent investment policies and conservative financial management positioned us well. Nonetheless, since the College is a highly endowment-dependent institution, financial adjustments could not be avoided entirely. A major accomplishment of the fiscal year was the successful development of a five-year financial plan to address the impact of the endowment decline on the budget. This financial plan was approved by the Board of Managers in December 2009. It included a series of actions to adjust the College's budget to a smaller endowment and restore the College to financial sustainability for the future.

Because the College's financial and investment practices provided some protection during the decline in the financial markets, the College was able to preserve academic priorities, avoid layoffs, and maintain key financial aid policies. During the fiscal year, the financial markets improved some, and the endowment increased by $120.6 million to end the fiscal year on June 30, 2010 at $1.25 billion. The implementation of the financial plan over the next five years will maintain the College's financial strength and position it to develop strategic directions for the future.

This report presents the financial results of the 2009–2010 year in detail and discusses the actions taken in response to the economic situation. Longer-term statistical information is presented in Chart 1, and the audited financial statements appear following this report.

AD HOC FINANCIAL PLANNING GROUP

The Board of Managers appointed an Ad Hoc Financial Planning Group in early 2009 and charged it with developing a plan to address the financial impact of the credit crisis and the ensuing financial market decline and economic recession. The group was composed of members of the Board, faculty, senior administration, and staff. A Student Financial Advisory Panel provided student input to the Ad Hoc Group.

Several key principles guided the work of the Ad Hoc Group:

- Preservation of the College's academic excellence
- Protection of need-blind admissions and accessibility for qualified students from all economic backgrounds
- Provision of strong support for students
- Commitment to the community, seeking a balance between the common good and the individual good and shared contributions across the community
- Stewardship of the endowment to achieve intergenerational equity

The economic downturn resulted in a lower level of sustainable endowment support for the budget. Without adjustment, a budget gap or deficit would have occurred. The College's plan to close the budget gap involved a careful phasing of actions. The first phase was the College's immediate response, which was implemented for the 2009–2010 fiscal year. It included $3.2 million in ongoing budget adjustments and

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

	1970	1980	1990	2000	2009	2010
STUDENT CHARGES						
Average on-campus enrollment	1,097	1,298	1,281	1,356	1,384	1,414
Average foreign-study enrollment[1]				80	83	73
Comprehensive charges ($)	3,435	7,080	19,450	31,690	47,804	49,600
Total expenditures and mandatory transfers, including financial aid ($000)	7,160	14,891	46,537	92,721	143,230	143,249
Per student ($)	6,527	11,472	36,329	64,569	97,635	96,334
Per student, excluding financial aid ($)	5,983	10,330	31,795	55,718	82,757	81,656
Student charges as percentage of budget/student, excluding financial aid	57	69	61	57	58	61
ADMISSIONS DATA						
Applications completed	2,332	1,866	3,233	3,956	5,575	6,041
Percentage accepted	23	40	32	24	17	16
Percentage enrolled (of those accepted)	57	44	34	39	41	40
FINANCIAL AID DATA						
Percentage of students receiving need-based Swarthmore scholarships	36	39	45	51	49	51
Average Swarthmore scholarship ($)	1,504	2,478	8,661	17,070	29,151	30,865
Average Swarthmore scholarship as percentage of charges	44	35	45	54	61	62
Average financial need ($)	N/A	4,108	12,580	22,922	32,872	34,973
Average Swarthmore scholarship as percentage of average need	N/A	60	69	74	89	88
GIFTS AND GRANTS RECEIVED[2]						
Annual giving ($000)	361	1,000	2,035	3,439	4,373[4]	4,704[4]
Other gifts and bequests ($000)	1,076	4,259	9,982	14,656	14,843	10,076
Government grants ($000)	321	1,493	2,092	2,014	1,619	1,471
Total ($000)	1,758	6,752	14,109	20,109	20,835	16,251
Annual Fund participation (%)	42.2	48.5	58.5	55.3	55.0	55.0
ENDOWMENT						
Original value ($000)	17,982	26,559	80,649	155,070	363,239	366,331
Market value ($000)	48,514	91,557	336,224	963,676	1,128,675	1,249,254
Unit market value ($)[3]	37.29	61.50	181.75	473.10	478.25	528.20
Distribution/unit ($)	1.41	2.20	6.44	14.77	24.95	20.10
DEBT OUTSTANDING ($000)	0	0	37,215	78,632	180,788	176,991

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
4 Reflects a change in classification of certain unrestricted gifts and bequests.

$9.1 million in temporary, non-sustainable adjustments. These will be discussed in detail in this report. These adjustments enabled the College to respond to the decline in the value of the endowment from its peak of $1.4 billion and the subsequent necessary reduction in the amount of spending from the endowment. With these adjustments in place, the Ad Hoc Group then turned to the second phase—to identify an additional $8 million in ongoing budget adjustments to replace some of the temporary adjustments and restore financial sustainability over the next several years. The Board of Managers approved this plan at the end of 2009, and much of the second phase was implemented for the 2010–2011 fiscal year. In order to provide the least disruptive implementation, however, the Board of Managers made personal contributions to enable the last of the adjustments to be deferred for three years, during which time the economic conditions will be monitored and appropriate adjustments made.

RESULTS OF THE 2009–2010 FISCAL YEAR

The decline in the financial markets caused a reduction in the value of the endowment. The peak year-end endowment value was $1.441 billion at June 30, 2007. The endowment fell over the next two years and its value was $1.128 billion at June 30, 2009. The College's budget is highly dependent on the endowment, and the endowment spending distribution is a significant portion of revenues. Historically, the College has been able to increase endowment support to the budget while maintaining endowment spending within its target range as a percent of the endowment market value. Because of the downturn, this was not possible for 2009–2010. Continuing the normal approach for endowment spending would have resulted in an unacceptably high endowment spending rate. As no near-term recovery to the previous endowment levels was anticipated, Swarthmore and almost every other highly endowment-dependent institution implemented plans to reduce endowment support and made the necessary adjustments to the budget.

Results for 2009–2010 reflected the first phase of the College's response to the economic downturn. Total spending from the endowment in 2009–2010 was reduced to $46.3 million from $57.1 million the prior year. Total expenditures also declined to $118.9 million from $121.4 million, and facilities capital expenditures decreased to $2.5 million from $10.8 million. Chart 2 shows that the per student cost of a Swarthmore education in 2009–2010 was $79,961. Student revenues (net of financial aid) contributed 41 percent toward the cost with philan-

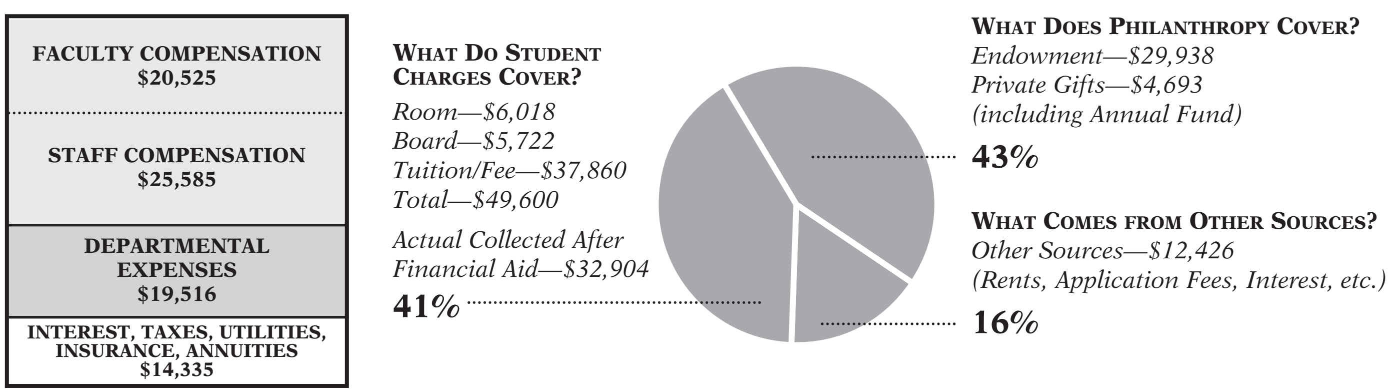
CHART 2

FINANCING A SWARTHMORE EDUCATION 2009–2010

WHAT IS THE COST OF A YEAR AT SWARTHMORE?

$79,961

(per student, excluding financial aid)



thropy (the endowment distribution and private gifts) providing 43 percent.

Some of the major components of the 2009–2010 first phase of the budget adjustments were:

Enrollment and Student Fees

An additional 35 students will be added over three years, bringing the average on-campus enrollment target to 1,420 students. With adequate housing and strong student demand, this increase is feasible. In 2009–2010, average on-campus enrollment was 1,412 students, and an average of another 71 students per semester participated in foreign study programs.

Student charges increased 3.76 percent to $49,600. This was the lowest increase in 10 years.

Financial Aid

Protection of need-blind admissions and continued affordability and accessibility for all admitted students guided the budget construction. The College was fortunate to be able to continue these financial aid policies without change. In 2009–2010, 51 percent of students qualified for financial aid. The average scholarship of all aided students was $30,865. In 2008–2009, the College was one of a small number of institutions that adopted a policy of loan-free financial aid packages. In other words, financial aid packages no longer contained a suggested loan component; it was replaced by additional scholarship from the College. Although some schools announced modifications to their policies in light of the economy, Swarthmore continued this program in 2009–2010.

Endowment Support

As a result of the other budget adjustments, the distribution from the endowment to support the budget declined by $10.8 million to $46.3 million. As shown in Chart 3, this resulted in a 4.2 percent endowment spending rate. Although this is within the target 3.75 percent to 4.75 percent range, it is misleading. When the endowment was at its lowest value in early 2009, if no budget adjustments had been made, the spending rate would have exceeded 6 percent, a rate that over time, would have gradually reduced the purchasing power of the endowment. Moreover, the 2009–2010 endowment spending rate was achieved because of temporary adjustments (such as the reduction in facilities capital project funding), which are not sustainable long-term. Without these adjustments, the spending rate would have been 5 percent. It is not until the implementation of additional ongoing budget adjustments in the coming years that the endowment spending rate will reach a sustainable level within the target range.

Faculty and Staff Compensation

The economic climate changed the competitive landscape for compensation. In order to help address budget shortfalls, several peer institutions announced salary freezes for faculty and staff. Swarthmore likewise adopted a one-year salary freeze for faculty and staff in 2009–2010. No changes were made to the College's benefits plans in 2009–2010, and costs increased for the health and tuition benefits. A study of longer-term changes to maintain competitive benefits resulted in some recommended changes to the College's health and tuition benefits in future years. These changes seek to control cost increases while providing an equitable and competitive benefits package for faculty and staff.

There were also savings in faculty and staff positions. One vacant faculty tenure line was not filled, and there was a reduction in faculty leave replacements. Several vacant staff positions were eliminated. The College was pleased that no layoffs of faculty or staff were necessary for budget reasons. The community placed a high value on avoiding layoffs and supported alternative solutions, including the salary freeze for both faculty and staff, instead.

Other Non-Compensation Expenditures

The 2009–2010 budget included $1.9 million in reductions of departmental expenses, including the savings in faculty and staff positions. Every major area implemented the first phase of cost reductions in 2009–2010, and more were planned for the following years. Some examples of these were reduction of printing costs through conversion to electronic publications; reduction in travel and professional development costs; and reduction in speakers, library materials, and equipment budgets. The College also rebid many of its consulting, printing, and other contracts.

Facilities Capital Spending

Funding for facilities capital projects declined from $9 million to $3.2 million. A reduced level of capital spending is expected for the next three years; however, it is not sustainable beyond that without accumulating unacceptable levels of deferred maintenance. Because of the reduced level of funding, only the most necessary repair and maintenance projects were undertaken.

Efforts were focused on maintenance of the existing physical plant. Projects included the installation of security screens on the student rooms in Pittenger, Palmer, Roberts, and Alice Paul residence halls; bathroom renovations in Wharton Hall, the last phase of a three-year project; and repair of storm damage to the Mullan Center and roof leaks at Lamb-Miller Field House, Alice Paul Residence Hall, and Martin Biological Laboratory. A donor gift made possible the renovation of the hospitality room in the field house, creating a welcoming and functional space for pre- and post-event gatherings.

The College also completed several projects related to improving access for people with disabilities in accordance with the Americans with Disabilities Act. These included alterations in Kohlberg and Parrish Halls, paving projects in the athletics complex, and installation of visual fire alarms in several buildings.

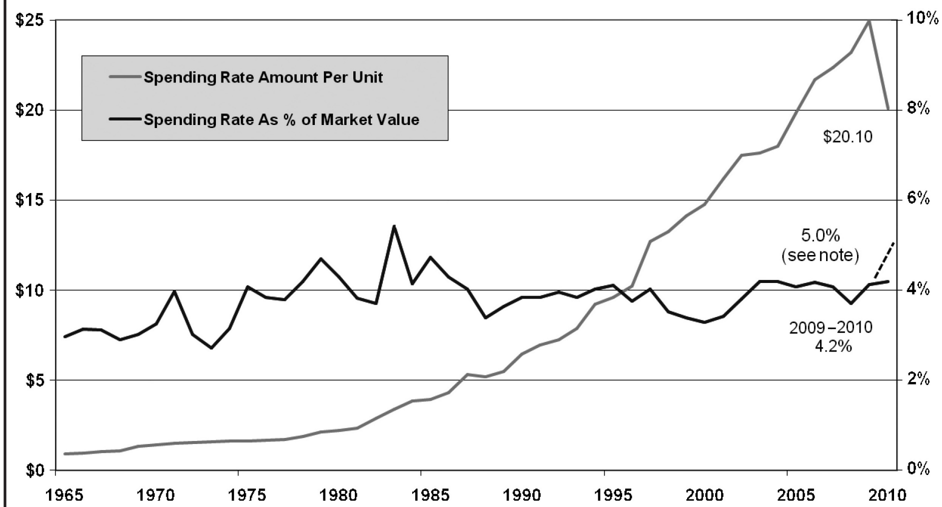
Technology Capital Spending

There was also a reduced budget for technology capital projects; however, some high priority projects did go forward. Completed projects included upgrades in academic classroom equipment, installation of network and other infrastructure improvements, and an upgrade of the College's e-mail and calendar system.

GIFTS

The College received $16.25 million in gifts and grants last year compared to the $20.8 million received in 2008–2009. This lower figure reflects a combination of factors, including the completion of most remaining pledges to *The Meaning of Swarthmore* comprehensive campaign and the lingering effects of the recession.

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



Note: The spending rate as percentage of market value for 2009–2010 would have been 5.0 percent if non-sustainable temporary adjustments had been excluded.

The Annual Fund, however, enjoyed an increase of 7.5 percent over the previous year to $4.7 million. For the first time in four years, the number of alumni donors increased over the previous year, to the highest number since the conclusion of the previous campaign and at a rate of 55 percent of donors solicited. Gifts from current and past parents to the Parents Fund (a part of the Annual Fund) increased by 52 percent over 2008–2009.

Annual Fund gifts, which provide unrestricted support, are vital to furthering Swarthmore's mission in many ways. They help to underwrite a generous financial aid program that benefits about half of all students and ensures that we can maintain our commitments to need-blind admissions and to meeting our students' full financial need. At the same time, Annual Fund gifts support faculty and the academic program, and the classroom, laboratory, performance, and athletics spaces on our campus, making it possible for students to benefit from the intellectual rigor and respect for the life of the mind that are the distinguishing hallmarks of the Swarthmore experience.

In many of the same ways, estate gifts also further Swarthmore's mission. The College received estate gifts from alumni and friends totaling $2.5 million last year. Thanks in part to the successful revival of the musical *South Pacific,* we continue to receive royalties from the estate of author James Michener '29. Alumni and staff made gifts to fund charitable annuities and trusts. Life income gifts such as these are used by many donors as a way to support the College and to receive supplemental income.

A matching grant from the George I. Alden Trust spurred alumni and parent donors to contribute toward the purchase of 22 new pieces of state-of-the-art equipment for our engineering program. These new acquisitions will enhance the classroom, laboratory, and research experience for both engineering students and non-engineering majors, providing outstanding preparation for careers and advanced research following graduation.

Long-time partner The Andrew W. Mellon Foundation continued to endorse Swarthmore's leadership and mission-critical efforts by providing a $100,000 grant to President Chopp to be used at her discretion to support academic initiatives; and $229,300 in support of the College's Mellon Mays Undergraduate Fellowship Program, which aims to increase the number of minority students and others with a demonstrated commitment to eradicating racial disparities who will pursue Ph.D.s in core fields in the arts and sciences.

During her first year as president, Rebecca Chopp embarked on a Listening Tour held in 13 cities across the United States and in London, where she met thousands of Swarthmore alumni, including many leadership donors.

Note: A total of $12.2 million in gifts and grants was recognized in the financial statements according to generally accepted accounting principles. The difference between this and the $16.3 million discussed above is related primarily to the accounting treatment of pledges and grants.

ADMISSIONS

The College's admissions statistics continued to be strong despite the economic challenges. Completed applications for the Class of 2014 increased to 6,041, the second highest number of applications ever. Swarthmore admitted 974 students, resulting in a strong 16 percent selectivity ratio. The incoming first-year class had 388 students, a 40 percent yield; and 10 transfer students were also admitted.

The median SAT scores of the incoming students were 730 (verbal), 720 (math), and 720 (writing), each out of a total possible score of 800. Students represented 34 countries and 39 of the 50 states.

ENDOWMENT

The market value of the endowment on June 30, 2010 was $1.25 billion, an increase of $120.6 million from the preceding year. The investment return was 14.8 percent, which compared favorably with other large endowments. Domestic and international equity managers exceeded their benchmarks, and the marketable alternative and private equity programs added value over traditional asset classes. Fixed income performance also exceeded its benchmarks while continuing to provide protection against both inflationary and deflationary threats. The real estate program generated negative returns as its difficulties continue. The natural resources investments showed mixed results.

The past decade has been a difficult one for endowments. Although the College's endowment has outperformed its benchmarks over previous multiyear periods, returns are below long-term targets. The returns over the past 3-,5-, and 10-year periods were -1.6 percent, 4.6 percent , and 5.4 percent, respectively. To achieve long-term sustainability, the College targets returns of inflation plus real returns of 5.75 percent. For the 10 years ended June 30, 2010, the endowment would have needed to achieve returns of about 8 percent vs. the 5.4 percent actually earned. Swarthmore is not alone, and peer institutions' returns have also fallen below targets. The College's budget adjustments included a projection of continued investment challenges for the endowment for a couple more years, after which a return to more normal performance was assumed.

The College's prudent investment policies enabled it to avoid the liquidity challenges faced by some other institutions. As a result, the College had and continues to have adequate liquidity to meet budget needs and funding for private investment commitments. This liquidity worked to our advantage last year. Because the College had available cash to make new investments, the endowment was able to gain access to some quality managers that had been closed to new investors in prior years.

A detailed model of the endowment's liquidity has been developed and is updated regularly. This model informs the amount of new commitments to private investments that can be made. Because private equity, private real estate, and private natural resource limited partnerships involve committing capital over many years, it is important to model the impact of this on endowment liquidity under different scenarios for the future. The College has ample liquidity and estimates that, as of June 30, 2010, about $593 million in investments could be converted to cash within 30 days.

The *"Fair Value Measurements"* accounting standards now require expanded disclosure with regard to endowment investments. Included in this report are the audited financial statements; the investment note within these statements includes much additional information on both the valuation and the liquidity of endowment investments.

CHART 4
ASSET ALLOCATION
June 30, 2010

	Percent of Total	*Long-Term Target*
Domestic Equity	21.7%	20.5%
International Equity	19.3	20.5
Marketable Alternatives	15.2	14.0
Private Equity	21.8	17.5
Real Estate	3.2	7.5
Natural Resources	4.1	5.0
Total Equity & Alternatives	85.3	85.0
U.S. Bonds	12.7	15.0
Cash Equivalents	2.0	0.0
Total Fund	**100.0**	**100.0**

CHART 5
SWARTHMORE COLLEGE ENDOWMENT
HISTORY OF ASSET ALLOCATION

	1960	**1970**	**1980**	**1990**	**2000**	**2009**	**2010**
Common Stocks							
Domestic Stocks (%)	73	80	81	56	55	24	22
International Stocks (%)	0	0	0	13	20	18	19
Private Equity (%)	0	0	0	5	3	20	22
Marketable Alternatives (%)	0	0	0	3	3	17	15
Real Assets (%)	6	3	3	2	1	7	7
Fixed Income/Cash (%)	21	17	16	21	18	14	15
	100	100	100	100	100	100	100

DEBT

In July 2009, the College issued $8.5 million in debt to refinance a portion of the outstanding 1998 bonds to achieve interest rate savings. For this issue, 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 and reflect the College's strong financial, admissions, and fundraising statistics.

As of June 30, 2010, the College had $177 million in debt outstanding. This was 16 percent of the value of the endowment, a level which compares favorably with peer institutions.

CONCLUSION

The Board of Managers, in adopting the recommendations of the Ad Hoc Financial Planning Group, also agreed to embark on a strategic direction-setting process during the current year. With a plan in place to address the budget challenges, the College could begin defining new priorities for the future. A structure for this process was adopted by the Board in fall 2010, and the process is now beginning. Three themes—changing patterns of teaching and learning, increasing globalization, and increasing use of technology—will be considered by a Strategic Planning Council composed of Board members, faculty, senior administration, staff, and students. Working groups and task forces will be formed to address specific areas in detail. By the end of 2011, a strategic plan articulating Swarthmore's vision for liberal arts education in the future will be formed. A focus on financial sustainability with a realistic implementation schedule, taking into account the changed economic environment, will be central to this effort.

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 *2009–2010 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, 2010; and further, that the financial statements fairly represent the financial condition of the College as of June 30, 2010 and the operating results and cash flows for the year ended June 30, 2010.

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, 2010 and 2009, 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.

As discussed in Note 3 to the consolidated financial statements, the College adopted the Financial Accounting Standards Board Standard for *Fair Value Measurements* in the year ended June 30, 2009.

PricewaterhouseCoopers LLP

September 24, 2010

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SWARTHMORE COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as of June 30, 2010 and 2009
(in thousands)

ASSETS	2010	2009
Cash and cash equivalents	$ 25,507	$ 19,225
Accounts receivable, net	2,029	2,583
Prepaid expenses and inventories	5,355	5,209
Contributions receivable	20,593	24,392
Student loans receivable, net	2,402	2,941
Employee mortgages receivable	15,304	15,550
Assets restricted to investment in property and equipment	93	11
Property and equipment, net	235,215	237,715
Investments, at market		
Endowment	1,249,254	1,128,675
Life income and annuity	42,873	40,292
Other	10,491	18,131
Total assets	**$ 1,609,116**	**$ 1,494,724**
LIABILITIES		
Accrued compensation	$ 6,527	$ 6,734
Payables and other accruals	6,609	8,371
Student deposits	1,856	1,708
Deferred payments and other liabilities	34,114	34,923
Refundable government loan funds	1,742	1,742
Bonds and notes payable	176,991	180,788
Total liabilities	**227,839**	**234,266**
NET ASSETS		
Unrestricted	$ 546,586	$ 494,884
Temporarily restricted	657,744	591,630
Permanently restricted	176,947	173,944
Total net assets	**1,381,277**	**1,260,458**
Total liabilities and net assets	**$ 1,609,116**	**$ 1,494,724**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2010
(in thousands)

		Restricted		Total
	Unrestricted	Temporarily	Permanently	2010
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	**$ 546,586**	**$ 657,744**	**$ 176,947**	**$ 1,381,277**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2009
(in thousands)

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total 2009
Operating revenues:				
Student tuition and fees	$ 54,696	$	$	$ 54,696
Room and board	14,887			14,887
Less student aid	(21,826)			(21,826)
Net student tuition and fees	47,757	-	-	47,757
Revenues from investments				
Endowment spending distribution	54,568	2,569		57,137
Other	1,295			1,295
Private gifts and grants	6,878	2,180		9,058
Government grants	771	1,000		1,771
Other additions	6,635	928		7,563
Transfers among net asset classes	464	(464)		-
Net assets released from restrictions	6,747	(6,747)		-
Total operating revenue	**125,115**	**(534)**	**-**	**124,581**
Operating expenses:				
Instruction	45,108			45,108
Academic support	16,155			16,155
Student services	10,894			10,894
Institutional support	23,931			23,931
Auxiliary activities	21,241			21,241
Research and public service	4,075			4,075
Total operating expenses	**121,404**	**-**	**-**	**121,404**
Increase/(decrease) in net assets from operating activities	**3,711**	**(534)**	**-**	**3,177**
Nonoperating activities:				
Net realized and unrealized loss on investments, net of endowment spending	(79,388)	(223,611)		(302,999)
Private gifts and grants	271	430	5,782	6,483
Change in present value of life income funds		2,961		2,961
Maturities of annuity and life income funds	(79)	(270)	349	-
Change in other post retirement benefits	(480)			(480)
Other	284	1,058	189	1,531
Transfers among net asset classes	111	(1,418)	1,307	-
Net assets released from restrictions	1,295	(1,295)		-
Increase/(decrease) in net assets from nonoperating activities	**(77,986)**	**(222,145)**	**7,627**	**(292,504)**
Net increase/(decrease) in net assets for the year	**(74,275)**	**(222,679)**	**7,627**	**(289,327)**
Net Assets, June 30, 2008	**569,159**	**814,309**	**166,317**	**1,549,785**
Net Assets, June 30, 2009	**$ 494,884**	**$ 591,630**	**$ 173,944**	**$ 1,260,458**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
Cash flows from operating activities		
Change in net assets	$ 120,819	$ (289,327)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	6,984	6,907
Amortization of bond premium	(861)	(695)
Donor restricted gifts	(4,567)	(8,392)
Net unrealized and realized (gains) and losses	(159,328)	251,809
Change in student loan reserve	-	-
Change in student loan reserve	110	(46)
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	4,208	246
Change in student deposits, payables and accruals	(2,195)	(2,131)
Net cash used by operating activities	**(34,830)**	**(41,629)**
Cash flows from investing activities		
Payments for property and equipment	(4,110)	(8,126)
Proceeds from sale of investments	686,063	1,041,225
Purchase of investments	(642,255)	(1,010,097)
Student loans and employee mortgages advanced	(1,396)	(1,368)
Payments on students loans and employee mortgages	2,070	1,376
Net cash provided by investing activities	**40,372**	**23,010**
Cash flows from financing activities		
Change in deferred payments	(809)	(2,526)
Proceeds from bonds and notes payable	-	-
Donor restricted gifts	4,567	8,392
Increases in assets restricted to investment in property and equipment	(471)	(551)
Reductions in assets restricted to investment in property and equipment	389	10,931
Proceeds from bonds and notes payable	9,454	-
Payments on bonds and notes payable	(12,390)	(3,005)
Net cash used by financing activities	**740**	**13,241**
Change in cash and cash equivalents	**6,282**	**(5,378)**
Cash and cash equivalents, beginning of year	19,225	24,603
Cash and cash equivalents, end of year	**$ 25,507**	**$ 19,225**
Interest paid	$ 8,445	$ 8,457
Non-cash capital expenditures in accounts payable	$ 376	$ 190

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(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 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, 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. 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. Significant estimates include 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 2009 amounts have been reclassified in the College's consolidated financial statements to conform to the 2010 presentation.

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

Property and Equipment
Property and equipment is stated at cost less accumulated depreciation. Expenditures for new construction, major renovations and equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of buildings (60 years), improvements (15 years) and equipment (5 years). Depreciation is funded annually by internally designating funds for plant renewal and replacement. Amounts totaling $2,501 and $10,793 were so designated for the years ended June 30, 2010 and 2009, 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 ranging 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 $2,092 and $2,096 as of June 30, 2010 and 2009, respectively.

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 1, 2 and 3 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 3 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.

(dollars in thousands)

The College has adopted the FASB Accounting Standards Codification (ASC or Codification) and the Hierarchy of Generally Accepted Accounting Principles (GAAP) which establishes the Codification as the sole source for authoritative U.S. GAAP and will supersede all accounting standards in U.S. GAAP. The adoption of the Codification did not have an impact on the College's results of operations, cash flows or financial position. Since the adoption of the Accounting Standards Codification (ASC), the college's notes to the financial statements will no longer make reference to Statement of Financial Accounting Standards (SFAS) or other U. S. GAAP pronouncements.

Subsequent Events

In May 2009, the FASB issued a standard on "*Subsequent Events"* to assist in the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. We evaluated the period from June 30, 2010, the date of the financial statements, through September 24, 2010, the date of the issuance of the financial statements for subsequent events. The College had no reportable subsequent events between June 30, 2010 and September 24, 2010.

2. Contributions Receivable

Contributions receivable at June 30, 2010 and 2009 were as follows:

Due in:	2010	2009
Less than one year	$7,685	$8,573
One to five years	8,781	10,648
More than five years	7,743	9,833
	24,209	29,054
Unamortized discount	(2,808)	(3,539)
Allowance for doubtful contributions	(808)	(1,123)
	$20,593	$24,392

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, 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, 2010. The College performs additional due diligence and reviews these for reasonableness. The College has assessed factors including, but not limited to, managers' compliance with the *Fair Value Measurement* standard in their audited financial statements, price transparency and valuation policies, and redemption conditions and restrictions.

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

(dollars in thousands)

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 2.8% to 11.6% and the 2000CM 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.

Investment activity for fiscal years 2010 and 2009 was:

	Endowment and similar funds	Annuity and Life Income funds	Other	2010 Total	2009 Total
Investments, beginning of year	$ 1,128,675	$ 40,292	$ 18,131	$ 1,187,098	$ 1,470,035
Contributions	5,693	111		5,804	9,918
Maturities of annuity and life income funds		(2,020)		(2,020)	(1,226)
Other			(140)	(140)	299
Transfers in	545	388		933	12,628
Transfers out	(4,492)		(7,291)	(11,783)	(2,995)
	1,746	(1,521)	(7,431)	(7,206)	18,624
Interest and dividends	13,554	1,381		14,935	13,290
Unrealized and realized gains and (losses)	156,012	3,525	(209)	159,328	(251,809)
Investment management fees	(4,408)			(4,408)	(5,040)
	165,158	4,906	(209)	169,855	(243,559)
Payments to annuity and life income beneficiaries		(804)		(804)	(865)
Endowment spending distribution					
Unrestricted	(44,518)			(44,518)	(54,568)
Temporarily Restricted	(1,807)			(1,807)	(2,569)
	(46,325)	(804)	0	(47,129)	(58,002)
Investments, end of year	$ 1,249,254	$ 42,873	$ 10,491	$ 1,302,618	$ 1,187,098

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

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

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

- Level III- Pricing inputs are unobservable for the investment and include situation 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 provision similar to those for marketable alternatives, as described below.

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

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

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

(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	$31,540	$116,382	$72,725	$272,629	$190,516	$1,972	$685,764

A summary of investments, measured in accordance with the *Fair Value Measurement* standard, as of June 30, 2009 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	$ 17,342			$ 17,342
Fixed Income	113,146		$ 25,726	138,872
Public Equity	194,879	$ 181,720	105,348	481,947
Real Assets		16,084	64,322	80,406
Private Equity			222,074	222,074
Marketable Alternatives			188,035	188,035
Total Endowment	$ 325,367	$ 197,804	$ 605,505	$ 1,128,676
Life income	40,292			40,292
Other	15,864		2,266	18,130
Total Investments	$ 381,523	$ 197,804	$ 607,771	$ 1,187,098

(dollars in thousands)

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, 2009 are as follows:

	Fixed Income	Equity	Real Assets	Private Equity	Marketable Alternatives	Other	Total
Fair Value, June 30, 2008	$33,898	$115,554	$54,289	$261,550	$185,980	$6,886	$658,157
Realized gains/(losses)	5,382	4,243	305	5,236	16,223	(197)	31,192
Unrealized gains/(losses)	(1,345)	(31,449)	(16,127)	(70,874)	(22,018)		(141,813)
Net additions/(distributions)	(12,209)	17,000	25,855	26,162	7,850	(4,423)	60,235
Fair Value, June 30, 2009	$ 25,726	$ 105,348	$ 64,322	$ 222,074	$ 188,035	$ 2,266	$ 607,771

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, 2010 and 2009 were:

	2010	2009
Private equity	$129,523	$152,807
Real estate	58,541	72,514
Natural resources	37,952	23,147
Total unfunded commitments	$226,016	$248,468

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, 2010, management estimates that it could have liquidated within 30 days approximately $593 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 2010 and 2009, the distribution of the endowment income exceeded the net yield (interest and dividends less fees) generated by endowment fund investments: therefore, $38,390 and $51,190, 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, $12,947 and $10,842 of net realized gains on endowments which have their earnings distributed for general purposed were included in unrestricted revenues in fiscal years 2010 and 2009, 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.

(dollars in thousands)

The following table shows the distribution and unit value for the investment pool at June 30, 2010 and 2009 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2010	2,369,999	$528.20	$20.10
June 30, 2009	2,365,016	$478.25	$24.95

4. Property and Equipment

Property and equipment at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Land	$4,927	$4,973
Buildings and improvements	306,578	303,173
Equipment	17,531	16,537
Works of art, historical treasures and similar assets	4,466	4,432
	333,502	329,115
Accumulated depreciation	(98,287)	(91,400)
	$235,215	$237,715

Interest payments totaling $0 and $49 were capitalized in 2010 and 2009, respectively.

5. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2010 and 2009 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.

	2010	2009
Conditional gift liability	$10,000	$10,000
Donors	9,932	10,250
Postretirement health benefit	9,233	8,460
Employees and former employees	3,986	5,279
Conditional asset retirement obligation	963	934
	$34,114	$34,923

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, 2010 and 2009 are as follows:

(dollars in thousands)

	2010	2009
Projected benefit obligation	$9,233	$8,460
Fair value of plan assets	-	-
Unfunded status	$9,233	$8,460
Accrued postretirement benefits	$9,233	$8,460
Weighted-average assumptions:		
Discount rate	5.32%	5.06%

Benefit expense totaled $773 and $480, employer contributions totaled $227 and $263, and employee contributions totaled $457 and $459 for the years ended June 30, 2010 and 2009, respectively. The estimated employer contribution for the year ending June 30, 2011 is $301.

6. Bonds and Notes Payable

Bonds and notes payable at June 30, 2010 and 2009 were:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Swarthmore Borough Authority				
1998 Revenue Bonds	$6,000	$5,610	$16,617	$16,110
2001 Revenue Bonds	29,936	28,659	29,439	28,607
2002 Revenue Bonds	27,878	26,583	29,839	28,610
2006A Revenue Bonds	79,626	78,986	75,813	79,149
2008 Revenue Bonds	28,587	26,999	28,682	27,427
2009 Revenue Bonds	9,409	9,280	-	-
Other notes payable	874	874	885	885
Total bonds and notes payable	$182,310	$176,991	$181,275	$180,788

The College bond ratings were Aaa/AAA for the years ended June 30, 2010 and 2009.

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

(dollars in thousands)

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 4.5% to 5.25% depending upon the maturity dates, which range from 2010 to 2020 in annual amounts ranging from $1,955 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 which remain outstanding have interest rates ranging from 4.65% to 5.25% depending upon the maturity dates that range from 2009 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
2010-2011	$3,275	$8,252	$11,527
2011-2012	3,431	8,091	11,522
2012-2013	3,601	7,920	11,521
2013-2014	37,666	6,925	44,591
2014-2015	3,265	5,938	9,203

Interest paid on bonds and notes payable was $8,445 and $8,457 for the years ended June 30, 2010 and 2009, respectively.

(dollars in thousands)

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 $4,542 in 2010 and $4,595 in 2009.

During fiscal year 2003 the College initiated a 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 $485 and $439 at June 30, 2010 and 2009 respectively. The College does not record transaction activity as revenue or expense. The investments are reported at fair value.

8. Net assets

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	8,673	7,534	17,796	34,003
	$546,586	$657,744	$176,947	$1,381,277

(dollars in thousands)

Net assets at June 30, 2009 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment		$502,401	$151,755	$654,156
Term Endowment		60,224		60,224
Quasi Endowment	$414,295			414,295
Annuity and life income	5,635	21,386	2,521	29,542
Student loans	1,882			1,882
Property and equipment				
Unexpended	6,967	(209)		6,758
Net investment in property and equipment	57,375			57,375
Other purposes	8,730	7,828	19,668	36,226
	$494,884	$591,630	$173,944	$1,260,458

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 $1,881 and $5,356 at June 30, 2010 and 2009 respectively.

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, 2008	$ 484,988	$ 783,053	$ 144,568	$ 1,412,609
Contributions	4,156	500	5,016	9,672
Transfers	(1,475)	1,947	2,139	2,611
Interest and dividends	12,418		32	12,450
Unrealized and realized gains (losses)	(26,184)	(220,306)		(246,490)
Investment management fees	(5,040)			(5,040)
Endowment spending distribution	(54,568)	(2,569)		(57,137)
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

(dollars in thousands)

9. Expenses by Natural Classification

Expenses for the years ended June 30, 2010 and 2009 were incurred for the following:

	2010	2009
Compensation		
Faculty	$30,521	$30,858
Staff	38,045	38,487
Student	1,252	1,259
Amortization	169	154
Life income payments and other adjustments	2,028	2,098
Bookstore merchandise for resale	643	730
Dining services food	1,861	1,830
Equipment	3,253	3,259
Foreign study program expenses	2,448	2,231
Insurance	715	817
Interest	7,956	8,021
Library materials	2,065	2,064
Services, supplies and other	14,605	15,908
Real estate taxes	917	925
Travel	2,893	3,174
Telephone	58	68
Utilities	2,489	2,614
Depreciation	6,984	6,907
	$118,902	$121,404

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, 2010 and 2009, the College had outstanding commitments for construction contracts of $1,268 and $2,423, respectively.

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As of June 30, 2010

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Stephen Bayer, *Vice President for Development and Alumni Relations*
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*
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