Swarthmore College

Consolidated Financial Statements
June 30, 2014 and 2013

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Independent Auditor's Report

To the Board of Managers

We have audited the accompanying consolidated financial statements of Swarthmore College, which comprise the consolidated statement of financial position as of June 30, 2014 and June 30, 2013 and the related consolidated statements of activities and changes in net assets, cash flows for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Swarthmore College's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Swarthmore College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Swarthmore College at June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, PA
September 19, 2014

SWARTHMORE COLLEGE

STATEMENTS OF FINANCIAL POSITION

as of June 30, 2014 and 2013

(in thousands)

ASSETS	**2014**	**2013**
Cash and cash equivalents	$ 28,130	$ 23,343
Accounts receivable, net	$ 2,908	1,236
Prepaid expenses and inventories	$ 3,819	3,239
Contributions receivable	$ 31,909	27,816
Student loans receivable, net	$ 1,113	1,394
Employee mortgages receivable	$ 13,228	12,848
Assets restricted to investment in property and equipment	$ 19,211	6,416
Property and equipment, net	$ 253,629	246,933
Investments, at market		
Endowment	$ 1,876,669	1,634,685
Life income and annuity	$ 45,760	41,445
Other	$ 64,409	76,650
Total assets	**$ 2,340,785**	**$ 2,076,005**
LIABILITIES		
Accrued compensation	$ 7,632	$ 7,447
Payables and other accruals	8,743	7,492
Student deposits	2,148	2,170
Deferred payments and other liabilities	58,599	60,829
Refundable government loan funds	1,742	1,742
Bonds and notes payable	217,762	205,632
Total liabilities	**296,626**	**285,312**
NET ASSETS		
Unrestricted	$ 776,303	$ 693,556
Temporarily restricted	1,060,356	899,189
Permanently restricted	207,500	197,948
Total net assets	**2,044,159**	**1,790,693**
Total liabilities and net assets	**$ 2,340,785**	**$ 2,076,005**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2014

(in thousands)

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total 2014
Operating revenues:				
Student tuition and fees	$ 68,121	$	$	$ 68,121
Room and board	17,500			17,500
Less student aid	(28,062)			(28,062)
Net student tuition and fees	57,559	0	0	57,559
Revenues from investments				
Endowment spending distribution	54,114	1,982		56,096
Other	685			685
Private gifts and grants	10,949	3,337		14,286
Government grants	462	1,606		2,068
Other additions	7,465	994		8,459
Transfers among net asset classes	12	(12)		0
Net assets released from restrictions	6,999	(6,999)		0
Total operating revenue	**138,245**	**908**	**0**	**139,153**
Operating expenses:				
Instruction	49,920			49,920
Academic support	20,357			20,357
Student services	12,401			12,401
Institutional support	26,066			26,066
Auxiliary activities	22,535			22,535
Research and public service	4,676			4,676
Total operating expenses	**135,955**	**0**	**0**	**135,955**
Increase in net assets from operating activities	**2,290**	**908**	**0**	**3,198**
Nonoperating activities:				
Net realized and unrealized gain on investments, net of endowment spending	76,653	161,304		237,957
Private gifts and grants	892	1,484	8,991	11,367
Change in present value of life income funds		(728)		(728)
Maturities of annuity and life income funds	1,150	(1,578)	428	0
Change in other post retirement benefits	(1,399)			(1,399)
Other	921	2,117	33	3,071
Transfers among net asset classes	(1,407)	1,307	100	0
Net assets released from restrictions	3,647	(3,647)	0	0
Increase in net assets from nonoperating activities	**80,457**	**160,259**	**9,552**	**250,268**
Net increase in net assets for the year	**82,747**	**161,167**	**9,552**	**253,466**
Net Assets, June 30, 2013	**693,556**	**899,189**	**197,948**	**1,790,693**
Net Assets, June 30, 2014	**$ 776,303**	**$ 1,060,356**	**$ 207,500**	**$ 2,044,159**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2013

(in thousands)

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total 2013
Operating revenues:				
Student tuition and fees	$ 66,421	$	$	$ 66,421
Room and board	17,204			17,204
Less student aid	(28,395)			(28,395)
Net student tuition and fees	55,230	0	0	55,230
Revenues from investments				
Endowment spending distribution	54,533	1,325		55,858
Other	830			830
Private gifts and grants	8,203	8,538		16,741
Government grants	494	1,495		1,989
Other additions	7,008	1,002		8,010
Transfers among net asset classes	25	(25)		0
Net assets released from restrictions	6,199	(6,199)		0
Total operating revenue	**132,522**	**6,136**	**0**	**138,658**
Operating expenses:				
Instruction	47,280			47,280
Academic support	17,688			17,688
Student services	11,749			11,749
Institutional support	24,479			24,479
Auxiliary activities	21,787			21,787
Research and public service	5,164			5,164
Total operating expenses	**128,147**	**0**	**0**	**128,147**
Increase in net assets from operating activities	**4,375**	**6,136**	**0**	**10,511**
Nonoperating activities:				
Net realized and unrealized gain on investments, net of endowment spending	43,704	78,670		122,374
Private gifts and grants	1,038	5,596	20,901	27,535
Change in present value of life income funds		207		207
Maturities of annuity and life income funds	1,332	(1,727)	395	0
Change in other post retirement benefits	423			423
Other	1,011	1,354	23	2,388
Transfers among net asset classes	155	9,896	(10,051)	0
Net assets released from restrictions	3,127	(3,127)	0	0
Increase in net assets from nonoperating activities	**50,790**	**90,869**	**11,268**	**152,927**
Net increase in net assets for the year	**55,165**	**97,005**	**11,268**	**163,438**
Net Assets, June 30, 2012	**638,391**	**802,184**	**186,680**	**1,627,255**
Net Assets, June 30, 2013	**$ 693,556**	**$ 899,189**	**$ 197,948**	**$ 1,790,693**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2014 and 2013

(in thousands)

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 253,466	$ 163,438
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	7,455	7,293
Amortization of bond premium	(1,725)	(1,674)
Donor restricted gifts	(6,759)	(14,400)
Receipt of contributed securities	(3,954)	(25,855)
Proceeds of contributed securities	1,368	25,156
Net unrealized and realized gains on investments	(284,071)	(165,533)
Change in student loan reserve	10	(55)
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	(6,345)	(9,388)
Change in deferred payments and other liabilities	(2,230)	14,278
Change in student deposits, payables and accruals	(972)	(3,065)
Net cash used by operating activities	**(43,757)**	**(9,805)**
Cash flows from investing activities		
Purchase of property and equipment	(11,765)	(12,207)
Proceeds from sale of investments	926,420	1,105,721
Purchase of investments	(876,757)	(1,113,795)
Student loans and employee mortgages advanced	(1,566)	(1,340)
Payments on students loans and employee mortgages	1,457	1,633
Net cash provided/used by investing activities	**37,789**	**(19,988)**
Cash flows from financing activities		
Donor restricted gifts	6,759	14,400
Proceeds from contributed securities designated for purchase of property and equipment and long-term investment	2,936	294
Change in assets restricted to investment in property and equipment	(12,795)	10,903
Proceeds from bonds and notes payable	52,616	0
Payments on bonds and notes payable	(38,761)	(4,726)
Net cash provided by financing activities	**10,755**	**20,871**
Change in cash and cash equivalents	**4,787**	**(8,922)**
Cash and cash equivalents, beginning of year	23,343	32,265
Cash and cash equivalents, end of year	**$ 28,130**	**$ 23,343**
Interest paid	$ 8,765	$ 8,370
Non-cash capital expenditures in accounts payable	$ 2,386	$ 2,053

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013
(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 to receive royalties. Its financial operations are immaterial to Swarthmore College as a whole.

The consolidated financial statements of Swarthmore College include a wholly-owned, for-profit, sole member Pennsylvania Limited Liability Corporation named Parrish LLC that was created on July 11, 2012. The purpose of Parrish LLC is to acquire and operate a hotel/inn and restaurant facility in the Borough of Swarthmore, PA. Its financial operations are immaterial to Swarthmore College as a whole.

Basis of Presentation

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

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

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

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

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

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

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

New Accounting Pronouncements
In October 2012, the FASB issued a standard on Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows. This standard defines the appropriate financial reporting for the receipt of donated securities in the Statement of Cash Flows. Donated securities with no donor-imposed restrictions are to be included in the operating section of the statement, while donated securities with donor-imposed long-term restrictions should be included in the financing section. The College has adopted this standard in Fiscal Year 2014 and disclosures for the years ended June 30, 2014 and 2013 pertaining to this topic have been included in the consolidated financial statements.

In April 2013, the FASB issued a standard on Not-for-Profit Entities: Services Received from Personnel of an Affiliate. This standard defines the revenue recognition for services received from personnel that directly benefit the recipient not-for-profit entity. The amendment is effective prospectively for fiscal years beginning after June 15, 2014. The College does not anticipate any impact to the consolidated financial statements and disclosures resulting from this standard.

Reclassification
Certain 2013 amounts have been reclassified in the College's consolidated financial statements to conform to the 2014 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 $9,365 and $9,927 were so designated for the years ended June 30, 2014 and 2013, 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 material 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 used 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.

(dollars in thousands)

Contributions receivable are stated at their present values and are net of any allowance for uncollectible contributions. Present values are determined using the applicable market rate in the period contributions are recognized, which ranges from 0.95% 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 240 hours of vacation. Accrued vacation payable amounted to $2,423 and $2,393 as of June 30, 2014 and 2013, respectively.

College Housing Programs

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

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

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

Subsequent Events

The College evaluated the period from June 30, 2014, the date of the financial statements, through September 19, 2014, the date of the issuance of the financial statements for subsequent events. On August 21, 2014, the College took out a letter of credit in the amount of $2.4 million as required by the Pennsylvania Department of Public Transportation related to a road construction project. On September 11, 2014, the College took out a letter of credit in the amount of $3.1 million as required by the Borough of Swarthmore related to the College's new development and construction project. The College had no other reportable subsequent events between June 30, 2014 and September 19, 2014.

2. Contributions Receivable

Contributions receivable at June 30, 2014 and 2013 were as follows:

Due in:	2014	2013
Less than one year	$20,049	$14,500
One to five years	9,569	11,013
More than five years	3,788	3,464
	33,406	28,997
Unamortized discount	(753)	(487)
Allowance for doubtful contributions	(744)	(674)
	$31,909	$27,816

3. Investments

The College records its investments at fair value in accordance with the *Fair Value Measurement* accounting standard. The value of publicly-traded fixed income and equity securities are based upon quoted market prices at the close of business on the last day of the fiscal year. 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, 2014 and 2013.

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, 2014 and 2013. 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, valuation policies, redemption conditions and restrictions.

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

Annuity, unitrust and life income funds periodically pay either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate at a designated time, usually upon the death of the last designated income beneficiary. The College's remainder interest is then available for use by the College as designated by either the donor or the Board of Managers. The actuarial liability for the charitable gift annuities as of June 30, 2014 and 2013 is based on the present value of future payments discounted at rates that vary by participant from 2.0% to 11.6% and the 2000CM Mortality Table. The actuarial liability for the unitrusts as of June 30, 2014 and 2013 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 Board of Managers sets the level of distribution of endowment return annually. In fiscal years 2014 and 2013, the distribution of the endowment income exceeded the net yield (interest and dividends less fees) generated by endowment fund investments: therefore, $46,114 and $43,159, 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, $14,010 and $11,606 of net realized gains on endowments which have their earnings distributed for general purposes were included in unrestricted revenues in fiscal years 2014 and 2013, respectively.

The College has various sources of internal liquidity at its disposal, including cash, cash equivalents, marketable debt and equity securities. If called upon at June 30, 2014, management estimates that it could have liquidated within 30 days approximately $965 million (unaudited) to meet short-term needs and provide investment flexibility.

(dollars in thousands)

Investment activity for fiscal years 2014 and 2013 was:

	Endowment and similar funds	Annuity and Life Income funds	Other	2014 Total	2013 Total
Investments, beginning of year	$ 1,634,685	$ 41,445	$ 76,650	$ 1,752,780	$ 1,578,755
Contributions	10,121	1,496		11,617	11,519
Maturities of annuity and life income funds		(2,260)		(2,260)	(2,913)
Other		(1,245)	(415)	(1,660)	(575)
Transfers in	6,834			6,834	46,858
Transfers out	(5,956)		(15,560)	(21,516)	(5,682)
	10,999	(2,009)	(15,975)	(6,985)	49,207
Interest and dividends	18,535	1,181		19,716	21,610
Unrealized and realized gains and (losses)	274,520	5,817	3,734	284,071	165,533
Investment management fees	(5,974)			(5,974)	(5,678)
	287,081	6,998	3,734	297,813	181,465
Payments to annuity and life income beneficiaries		(674)		(674)	(789)
Endowment spending distribution					
Unrestricted	(54,114)			(54,114)	(54,533)
Temporarily Restricted	(1,982)			(1,982)	(1,325)
	(56,096)	(674)	0	(56,770)	(56,647)
Investments, end of year	$ 1,876,669	$ 45,760	$ 64,409	$ 1,986,838	$ 1,752,780

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

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

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

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

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

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

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

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

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

- Real Assets include investments in real estate and natural resources such as oil and gas and commodities. Level II assets are able to be liquidated within 30 days. Level III assets are invested through limited partnerships which have stated terms of typically 10 to 12 years. The remaining terms of the College's private real estate and natural resource investments range from 1 to 10 years and 3 to 25 years respectively.

- Private Equity includes investments in buyouts, venture capital and distressed companies. These assets are considered to be Level III and are invested through limited partnerships which have stated terms of typically 10 to 12 years. The remaining terms of the College's private equity investments range from 1 to 20 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, 2014 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	$ 167,980	$ -	$ -	$ 167,980
Fixed Income	73,666		37,475	111,141
Public Equity	268,382	$ 362,404	241,960	872,746
Real Assets		11,616	160,358	171,974
Private Equity			323,167	323,167
Marketable Alternatives			229,661	229,661
Total Endowment	$ 510,028	$ 374,020	$ 992,621	$ 1,876,669
Life income	45,760			45,760
Other	62,599		1,810	64,409
Total Investments	$ 618,387	$ 374,020	$ 994,431	$ 1,986,838

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, 2014 are as follows:

	Fixed Income	Public Equity	Real Assets	Private Equity	Marketable Alternatives	Other	Total
Fair Value, June 30, 2013	$38,250	$164,346	$146,135	$316,383	$243,098	$1,777	$909,989
Realized gains/(losses)		3,952	5,945	44,220	11,803	7	65,927
Unrealized gains/(losses)	(775)	51,500	8,634	17,241	11,116		87,716
Purchases		38,769	29,865	34,457	18,250	199	121,540
Sales		(16,607)	(30,221)	(89,134)	(54,606)	(173)	(190,741)
Fair Value, June 30, 2014	$37,475	$241,960	$160,358	$323,167	$229,661	$1,810	$994,431

(dollars in thousands)

A summary of investments, measured in accordance with the *Fair Value Measurement* standard, as of June 30, 2013 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	$ 110,590	$ -	$ -	$ 110,590
Fixed Income	62,569		38,250	100,819
Public Equity	242,955	$ 301,319	164,346	708,620
Real Assets		9,040	146,135	155,175
Private Equity			316,384	316,384
Marketable Alternatives			243,097	243,097
Total Endowment	$ 416,114	$ 310,359	$ 908,212	$ 1,634,685
Life income	41,445			41,445
Other	74,873		1,777	76,650
Total Investments	$ 532,432	$ 310,359	$ 909,989	$ 1,752,780

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, 2013 are as follows:

	Fixed Income	Equity	Real Assets	Private Equity	Marketable Alternatives	Other	Total
Fair Value, June 30, 2012	$42,234	$131,687	$127,597	$342,474	$215,308	$2,007	$861,307
Realized gains/(losses)			5,705	47,652	2,825	(23)	56,159
Unrealized gains/(losses)	(3,984)	32,659	(573)	(24,171)	32,247		36,178
Purchases			34,067	37,124	658	98	71,947
Sales		0	(20,661)	(86,696)	(7,940)	(305)	(115,602)
Fair Value, June 30, 2013	$ 38,250	$ 164,346	$ 146,135	$ 316,383	$ 243,098	$ 1,777	$ 909,989

For the fiscal years ended June 30, 2014 and 2013 the College recorded no transfers between levels within the fair value hierarchy.

(dollars in thousands)

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, 2014 and 2013 were:

	2014	2013
Private equity	$166,392	$136,913
Real estate	62,546	46,159
Natural resources	44,758	46,669
Total unfunded commitments	$273,696	$229,741

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, 2014 and 2013 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2014	2,473,651	$772.65	$23.89
June 30, 2013	2,453,643	$678.10	$24.07

4. Property and Equipment

Property and equipment at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Land	$5,757	$5,757
Buildings and improvements	341,196	333,110
Construction in progress	8,684	3,641
Equipment	19,184	18,934
Works of art, historical treasures and similar assets	4,666	4,591
	379,487	366,033
Accumulated depreciation	(125,858)	(119,110)
	$253,629	$246,933

Interest payments totaling $235 and $300 were capitalized in 2014 and 2013, respectively.

(dollars in thousands)

5. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2014 and 2013 consisted of the present value of future payments due to or on behalf of employees and former employees under retirement and postretirement programs, donors under annuity and life income programs, a capital purchase agreement, the conditional asset retirement obligation and conditional gifts.

	2014	2013
Donors	$14,718	$13,994
Postretirement health benefit	12,893	11,494
Conditional gift liability	24,759	24,759
Employees and former employees	5,169	4,603
Capital acquisition	0	4,936
Conditional asset retirement obligation	1,060	1,043
	$58,599	$60,829

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, 2014 and 2013 are as follows:

	2014	2013
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	$ 6,559	$ 7,422
Actives fully eligible to retire	3,414	2,877
Retirees	1,521	1,618
Total	11,494	11,917
Service cost	457	529
Interest cost	545	465
Actuarial (gain) / loss	603	(1,194)
Benefits paid	(206)	(224)
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	7,892	6,559
Actives fully eligible to retire	3,615	3,414
Retirees	1,386	1,521
Total	$ 12,893	$ 11,494

(dollars in thousands)

	2014	2013
Change in plan assets		
Employer contribution	$ 206	$ 224
Benefits paid	(206)	(224)
Fair value of plan assets at end of year	$ -	$ -
Funded status		
Postretirement benefit obligation at end of year	$ 12,893	$ 11,494
Fair value of plan assets at end of year	-	-
Funded status end of year	12,893	11,494
Current liability	366	313
Non-current liability	12,527	11,181
Total	$ 12,893	$ 11,494
Components of the net periodic postretirement benefit cost		
Service cost	$ 457	$ 529
Interest cost	545	465
Amortization of actuarial (gain) / loss	0	51
Total	$ 1,002	$ 1,045
OPEB changes other than net periodic postretirement benefit cost		
New actuarial (gain) / loss	$ 603	$ (1,194)
Amortization of unrecognized amounts	-	(50)
Total	$ 603	$ (1,244)
Unrecognized amounts and amortization amounts in the following year:		
Net actuarial (gain) / loss	900	297
Total	$ 900	$ 297
Amortization amounts in following year (estimate)		
Net actuarial (gain) / loss	-	-
Total	$ -	$ -

Assumptions and effects:	2014	2013
Medical trend rate next year	7.00%	8.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2016	2013
Discount rate used to value end of year accumulated postretirement benefit obligation	4.15%	4.62%
Discount rate used to value net periodic postretirement benefit cost	4.62%	3.90%
Effect of a 1% increase in health care cost trend rate on:		
Interest cost plus service cost	$ 203	$ 210
Accumulated postretirement benefit obligation	$ 2,346	$ 1,947
Effect of a 1% decrease in health care cost trend rate on:		
Interest cost plus service cost	$ (161)	$ (166)
Accumulated postretirement benefit obligation	$ (1,893)	$ (1,582)
Measurement date	6/30/2014	6/30/2013

Year Beginning July 1st	Estimated Future Benefit Payment
2014	366
2015	433
2016	497
2017	538
2018	580
2019 - 2023	3,632

6. Bonds and Notes Payable

Bonds and notes payable at June 30, 2014 and 2013 were:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Swarthmore Borough Authority				
1998 Revenue Bonds	$ -	$ -	$1,509	$1,495
2006A Revenue Bonds	81,638	78,333	80,188	78,497
2008 Revenue Bonds	-	-	25,594	25,716
2009 Revenue Bonds	-	-	8,593	8,583
2011 Revenue Bonds	30,266	28,923	30,157	29,454
2011B Revenue Bonds	16,472	15,902	16,477	16,451
2011C Revenue Bonds	43,473	42,335	46,397	45,425
2013 Revenue Bonds	54,510	52,269	-	-
Other notes payable	-	-	11	11
Total bonds and notes payable	$226,359	$217,762	$208,926	$205,632

The College bond ratings by Moody's and Standard & Poor's were Aaa/AAA for the years ended June 30, 2014 and 2013.

The fair value of the College's long-term debt is based on quoted market prices, Level 1 input, for all outstanding issues as of June 30, 2014 and 2013.

On July 31, 2013, the College issued $47,340 aggregate principal amount of 2013 Revenue Bonds (2013 Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used to refund the 2008 Revenue Bonds, par value of $25,360, which were scheduled to mature on September 15, 2013, to refund the 2009 Revenue Bonds, par value of $8,525, which were scheduled to mature on September 15, 2013, to fund various tax-exempt capital projects and to fund the costs of issuing the 2013 Bonds. The 2013 Bonds have interest rates of 3.0% to 5.0% depending upon the maturity dates, which range from 2014 to 2043 in annual amounts ranging from $745 to $2,375. Interest is payable semi-annually.

On December 21, 2011, the College issued $14,380 aggregate principal amount of 2011B Revenue Bonds (2011B Revenue Bonds) through the Swarthmore Borough Authority at a premium. The proceeds were used for various tax-exempt capital projects and to fund the costs of issuing the 2011B Bonds. The 2011B Bonds have interest rates of 2.0% to 5.0% depending upon the maturity dates, which range from 2014 to 2021 in annual amounts ranging from $285 to $11,595. Interest is payable semi-annually.

On December 21, 2011, the College issued $46,280 aggregate principal amount of taxable 2011C Revenue Bonds (2011C Revenue Bonds) through the Swarthmore Borough Authority. The proceeds were used for general operations, to advance refund a portion of the 2002 Revenue Bonds, par value of $19,665 with maturity dates between 2013 and 2020 and to fund the costs of issuing the 2011C Bonds. The 2011C Bonds have interest rates of 1.146% to 3.10% depending upon the maturity dates, which range from 2014 to 2021 in annual amounts ranging from $3,120 to $21,420. Interest is payable semi-annually.

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

On July 29, 2009, the College issued $8,525 aggregate principal amount of 2009 Revenue Bonds (2009 Bonds) through the Swarthmore Borough Authority 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 had interest rates of 2.0% and 5.0% (priced to yield 1.56%) and were scheduled to mature on September 15, 2013. On July 31, 2013, the 2009 Bonds were refunded in total using proceeds from the 2013 Bonds.

On April 30, 2008, the College issued $25,360 aggregate principal amount of 2008 Revenue Bonds (2008 Bonds) through the Swarthmore Borough 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 had interest rate of 5.0% (priced to yield 2.95%) and were scheduled to mature on September 15, 2013. On July 31, 2013, the 2008 Bonds were refunded in total using proceeds from the 2013 Bonds.

On December 20, 2006, the College issued $76,085 aggregate principal amount of 2006A Revenue Bonds (2006A Bonds) through the Swarthmore Borough 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.

(dollars in thousands)

On July 1, 1998, the College issued $34,960 of 1998 Revenue Bonds through the Swarthmore Borough 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 final 1998 Revenue Bond of $1,495, with an interest 4.75%, matured on September 15, 2013.

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

	Principal	Interest	Total
2014-2015	6,105	8,680	14,785
2015-2016	6,260	8,530	14,790
2016-2017	6,450	8,344	14,794
2017-2018	6,660	8,133	14,793
2018-2019	33,565	7,323	40,888

Interest paid on bonds and notes payable was $8,765 and $8,370 for the years ended June 30, 2014 and 2013, respectively.

7. Retirement Benefits

Retirement benefits for all eligible employees of the College are individually funded and vested under a defined contribution Sec. 403(b) retirement plan with Teachers Insurance and Annuity Association of America (TIAA), or Vanguard Group of Investment Companies. 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 $5,160 in 2014 and $4,960 in 2013.

During fiscal year 2003 the College initiated a Sec. 457 non-qualified deferred compensation plan for senior management employees. Participants elect to defer compensation, which is invested with the Teachers Insurance and Annuity Association of America (TIAA) or the Vanguard Group of Investment Companies and is considered College property until the employee withdraws the funds due to emergency, termination or retirement. The participants’ contributions are subject to the general creditors of the College, so the invested asset is offset by a corresponding liability in the amounts of $800 and $739 at June 30, 2014 and 2013 respectively. The College does not record transaction activity as revenue or expense. The investments are reported at fair value.

(dollars in thousands)

8. Net assets

Net assets at June 30, 2014 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment		$913,626	$180,819	$1,094,445
Term Endowment		100,310		100,310
Quasi Endowment	$681,915			681,915
Annuity and life income	10,824	19,894	2,392	33,105
Student loans	2,122			2,122
Property and equipment				
Unexpended		285		285
Net investment in property and equipment	70,917			70,917
Other purposes	10,525	26,241	24,289	61,055
	$776,303	$1,060,356	$207,500	$2,044,159

Net assets at June 30, 2013 were designated or allocated to:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment		$770,739	$173,453	$944,192
Term Endowment		85,763		85,763
Quasi Endowment	$604,730			604,730
Annuity and life income	8,427	19,117	2,475	30,019
Student loans	2,085			2,085
Property and equipment				
Unexpended		2,521		2,521
Net investment in property and Equipment	63,732			63,732
Other purposes	14,582	21,049	22,020	57,651
	$693,556	$899,189	$197,948	$1,790,693

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.

As of June 30, 2014 there were no donor-related endowment funds for which the fair value of assets is less than the level required by donor stipulations.

(dollars in thousands)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment total, June 30, 2012	$ 553,547	$ 776,014	$ 169,214	$ 1,498,775
Contributions	3,624	4,000	3,118	10,742
Transfers	2,466	1,375	1,111	4,952
Interest and dividends	20,305		10	20,315
Unrealized and realized gains (losses)	84,999	76,438		161,437
Investment management fees	(5,678)			(5,678)
Endowment spending distribution	(54,533)	(1,325)		(55,858)
Endowment total, June 30, 2013	$ 604,730	$ 856,502	$ 173,453	$ 1,634,685
Contributions	3,350	160	6,611	10,121
Transfers	(4,068)	4,197	749	878
Interest and dividends	18,529		6	18,535
Unrealized and realized gains (losses)	119,459	155,061		274,520
Investment management fees	(5,974)			(5,974)
Endowment spending distribution	(54,113)	(1,983)		(56,096)
Endowment total, June 30, 2014	$ 681,913	$ 1,013,937	$ 180,819	$ 1,876,669

9. Expenses by Natural Classification

Expenses for the years ended June 30, 2014 and 2013 were incurred for the following:

	2014	2013
Compensation	$80,876	$76,802
Amortization	216	272
Life income payments and other adjustments	1,755	1,852
Bookstore merchandise for resale	485	579
Dining services food	2,158	2,028
Equipment	3,156	2,577
Foreign study program expenses	3,503	2,926
Insurance	853	794
Interest	7,115	6,448
Library materials	2,372	2,270
Services, supplies and other	19,174	17,876
Real estate taxes	1,177	1,036
Travel	3,450	3,333
Utilities	2,210	2,061
Depreciation	7,455	7,293
	$135,955	$128,147

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.

Parrish LLC is a for-profit corporation subject to federal income taxes under the Internal Revenue Code. Through June 30, 2014, this wholly-owned, sole member Pennsylvania Limited Liability Corporation has not generated any taxable income.

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, 2014 and 2013, the College had outstanding commitments for construction contracts of $23,876 and $2,859, respectively.