SWARTHMORE COLLEGE FINANCIAL REPORT 2012–13

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

FINANCIAL REPORT 2012–13

The past fiscal year was financially strong for Swarthmore College. Net assets increased by $163.4 million due largely to an 11.9 percent investment return on the endowment and record fundraising results. The year ended June 30, 2013, marked the transition of the budget from the years of adjustment following the economic downturn in 2008 to a more normal state of equilibrium. With the endowment continuing to sustain a positive trajectory since returning to its predownturn level in 2011, this past year—after several years at a reduced level—facilities capital spending was restored in the budget. The strategic plan implementation is now underway, and the early stages of the capital campaign are showing good success.

This progress is tempered by recognition of a changed economic climate. As family incomes stagnate, there is growing attention to the value proposition of higher education, particularly for high-priced private institutions. Last spring, the Board of Managers convened a retreat of Board members from several key committees to discuss how this changed environment should factor into key financial and budget decisions to ensure continued financial sustainability. This was the first retreat of its kind in recent years. Board members representing the Finance, Audit and Risk Management, Investment, Development, Property, and Admissions and Financial Aid committees met to discuss each committee's perspective, review financial scenarios, and integrate those discussions across committees. The retreat resulted in the adoption of a baseline financial scenario for the future and a plan for the Finance Committee to devote increased time in its annual cycle to discussion of long-term financial scenarios and contingency planning. There was also agreement on the value of periodic retreats in the future.

This was the first year of the new Board committee on admissions and financial aid, established upon the recommendation of the *Strategic Directions* report shepherded by President Rebecca Chopp and adopted by the Board in 2011. Thomas E. Spock '78 chaired the Admissions and Financial Aid Committee in its inaugural year. Much appreciation is also extended to Richard A. Barasch '76 and Barbara W. Mather '65 for their leadership of the Audit and Risk Management and Finance committees, respectively. Each of their terms ended at the close of the fiscal year.

This report presents the financial results of the 2012–13 fiscal year in detail. Longer-term statistical information is presented in Chart 1, and the audited financial statements appear following this report.

STUDENT REVENUES: ENROLLMENT, STUDENT FEES, AND FINANCIAL AID

Total operating expenses for 2012–13 were $128.1 million, an increase of 3.1 percent from the year before. This amounted to $84,307 per student, excluding financial aid, as shown in Chart 2. With tuition, fee, room, and board charges of $55,750 per student, every Swarthmore student received support beyond stated charges of at least $28,557 per student; and 52 percent of Swarthmore students received College scholarships in addition.

Student charges, net of financial aid, provided 43 percent of the cost of a Swarthmore education. Philanthropy provided another 49 percent with 43 percent coming from the endowment and 6 percent from other gifts, including the annual fund. The remainder came from other

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

	1970	1980	1990	2000	2010	2013
STUDENT CHARGES						
Average on-campus enrollment	1,097	1,298	1,281	1,356	1,414	1,449
Average foreign-study enrollment[1]				80	73	71
Comprehensive charges ($)	3,435	7,080	19,450	31,690	49,600	55,750
Total expenditures and mandatory transfers, including financial aid ($000)	7,160	14,891	46,537	92,721	143,249	156,542
Per student ($)	6,527	11,472	36,329	64,569	96,334	102,988
Per student, excluding financial aid ($)	5,983	10,330	31,795	55,718	79,961	84,307
Student charges as percentage of budget/student, excluding financial aid	57	69	61	57	62	66
ADMISSIONS DATA						
Applications completed	2,332	1,866	3,233	3,956	6,041	6615
Percentage accepted	23	40	32	24	16	14
Percentage enrolled (of those accepted)	57	44	34	39	40	41
FINANCIAL AID DATA						
Percentage of students receiving need-based Swarthmore scholarships	36	39	45	51	51	52
Average Swarthmore scholarship ($)	1,504	2,478	8,661	17,070	30,865	34,132
Average Swarthmore scholarship as percentage of charges	44	35	45	54	62	61
Average financial need ($)	N/A	4,108	12,580	22,922	34,973	38,408
Average Swarthmore scholarship as percentage of average need	N/A	60	69	74	88	89
GIFTS AND GRANTS RECEIVED[2]						
Annual giving ($000)	361	1,000	2,035	3,439	4,704[4]	5,000[4]
Other gifts and bequests ($000)	1,076	4,259	9,982	14,656	10,076	46,479
Government grants ($000)	321	1,493	2,092	2,014	1,471	1,993
Total ($000)	1,758	6,752	14,109	20,109	16,251	53,472
Annual Fund participation (%)	42.2	48.5	58.5	55.3	55.4	53.0
ENDOWMENT						
Original value ($000)	17,982	26,559	80,649	155,070	366,331	400,524
Market value ($000)	48,514	91,557	336,224	963,676	1,249,254	1,634,685
Unit market value ($)[3]	37.29	61.50	181.75	473.10	528.20	678.10
Distribution/unit ($)	1.41	2.20	6.44	14.77	20.10	24.07
DEBT OUTSTANDING ($000)	0	0	37,215	78,632	176,991	206,464

[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.

miscellaneous sources of revenue. On-campus enrollment was 1,449 students last year, and an average of 71 students per semester studied off campus.

ENDOWMENT SUPPORT

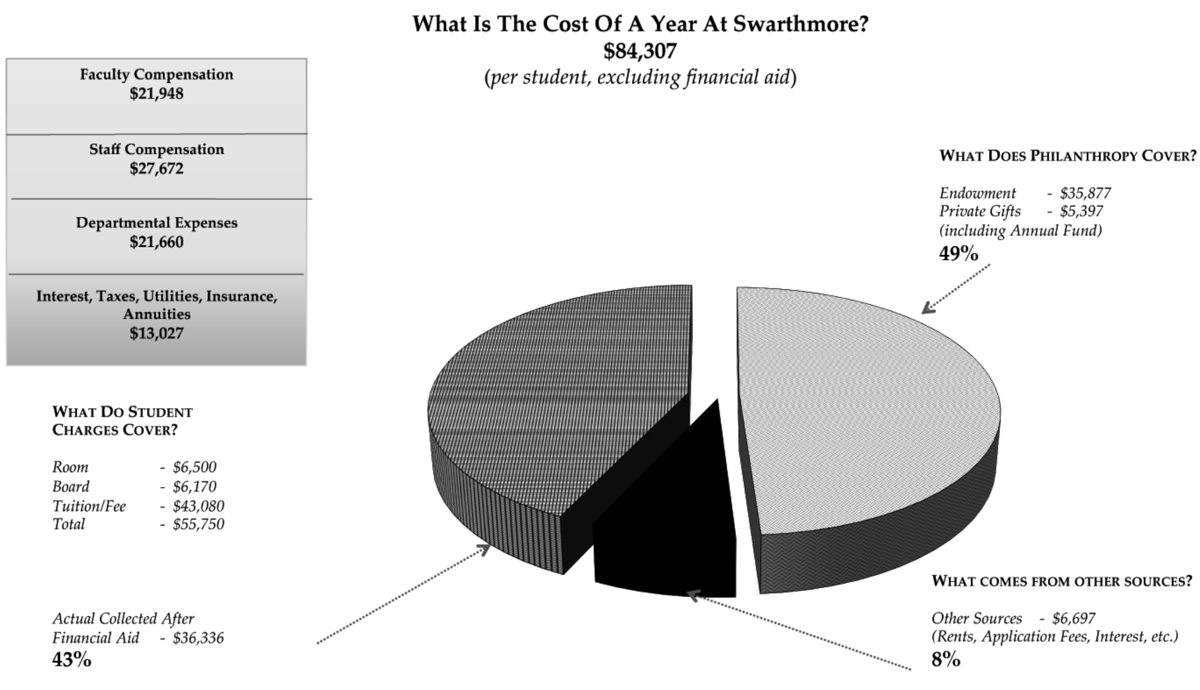
Endowment support to the budget in 2012–13 was $54.5 million. This was a significant increase of $6.6 million over the year before as the College was able to restore capital spending for facilities in the budget. For many years, a portion of endowment support has been allocated to pay for capital improvements to facilities. This had been reduced for several years due to the impact of the Great Recession on the endowment. The recovery in the endowment allowed for the restoration of this support. The endowment spending rate for the year was 3.8 percent of the beginning market value of the endowment, as shown in Chart 3. This is within the advisable 3.5 to 5.0 percent range adopted by the Board of Managers.

GIFTS

The College received $53.5 million in gifts and grants in 2012–13 compared to $24 million received in 2011–12. Unrestricted gifts increased from $6.6 million to $22.6 million and gifts to the endowment from $5.9 million to $19.6 million. The annual fund increased by 8.9 percent to $5 million from a slightly larger number of donors (9,091 v. 9,066). The number of leadership donors (making gifts of $1,864 and above) to any fund increased slightly this year, yielding a larger average gift. One in four alumni donors increased their annual fund gift in 2012–13 from the prior year. The alumni participation rate was 53 percent of alumni solicited. Gifts to the parents fund (a part of the annual fund) increased by 9.9 percent during 2012–13.

During 2012–13 the emeritus chair of the Board and the Board's current chair announced landmark commitments to the College's upcoming comprehensive campaign. These commitments ignited $95.8 million in growth from outright gifts and new pledges from private sources. Additionally, the College recognized $2.5 million in outright gifts and new pledges from government grantors and received $3.1 million in irrevocable deferred gifts. The new gifts, grants, and philanthropic commitments enabled the College to begin moving forward with a number of major initiatives in the first phase of implementing the College's strategic plan. These included high-impact learning experiences; the

CHART 2
FINANCING A SWARTHMORE EDUCATION 2012–13



Institute for the Liberal Arts; new facilities for the biology, engineering, and psychology departments; new faculty positions; the Center for Innovation and Leadership; facilities for wellness, fitness, and theater; and renovations to Parrish Hall. Thirty-three faculty members received support from 42 active grants or fellowships.

Terminated life income gifts (following the death of the income recipient) provided the College with $2.1 million in restricted and unrestricted funds (not included in gift totals). In the past year, the College enrolled 50 new members in the Legacy Circle, which recognizes donors who have included Swarthmore in their estate plans, including wills, trusts, charitable gift annuities, and other gifts that the College will realize in the future. In 2012–13, the College realized $4.3 million from bequests.

Throughout the year, President Rebecca Chopp, serving as the College's lead ambassador and fundraiser, continued to visit with hundreds of Swarthmore alumni and parents and scores of leadership donors throughout the United States, Europe, and East Asia in anticipation of a comprehensive effort to secure philanthropic support for initiatives in *Strategic Directions*.

Note: A total of $44.3 million in gifts and grants was recognized in the financial statements according to generally accepted accounting principles. The difference between this and the $53.5 million discussed above is related primarily to the accounting treatment of pledges and grants.

EXPENDITURES

Total expenditures increased by 3.1 percent from the prior year to $128.1 million. Compensation for faculty and staff represented 59 percent of expenditures. Salary increases to continue to meet compensation benchmarks accounted for a significant portion of the increase in expenditures. A new tenure line in Arabic was added, as well as new staff positions in ITS, public safety, health center, and capital giving. Wherever possible, the College attempts to reallocate or reorganize existing staff positions before adding new ones. Other needs were accommodated in this way. Utilities expenses were lower due to several successful conservation programs and favorable contracts for electricity.

FACILITIES CAPITAL SPENDING

The fiscal year that ended June 30, 2013, was the first year of significantly restored facilities capital spending, concluding three years of reduced spending as a result of the recession. Along with the completion of many small catch-up restorations, several major projects were undertaken. In addition, the campus master plan was substantially completed; the Town Center West planning and approval process continued; and planning began for a new wellness/fitness/theater center, a residence hall addition, and new facilities for the biology, engineering, and psychology departments.

The College completed a comprehensive renovation of Worth Health Center, providing a state-of-the-art health center that includes a counseling and psychological services wing. Thanks to the generosity of an anonymous donor, the restoration of the slate and metal roofs on Parrish Hall was completed as well as the installation of new heating and air conditioning systems along with daylight-controlled LED lighting systems on the first floor of Parrish Hall. A third major project was the purchase of the four-story office building at 101 South Chester Road, just across the street from the main campus. Following renovation and remodeling, the top two floors of this building became the new home of the entire Development and Alumni Relations staff.

The Town Center West (TCW) development continued to be a major effort. TCW is a project guided by the Town Revitalization Plan of the Borough of Swarthmore and includes a small inn, a restaurant, and the bookstore of the College. With Board approval of the building design and budget last May, the governmental approval process began. That process will continue with the hope of breaking ground in late spring of 2014.

In support of the *Strategic Directions* plan, consistent with the campus master planning effort, planning and design was undertaken for three facilities. First, a new three-story, 21,000-square-foot wellness/fitness/theater center (named The Matchbox) will be constructed on the footprint of the obsolete squash court building. The Matchbox will provide high-quality activity space including fitness equipment and training facilities for athletes along with a rehearsal space/classroom for the theater department. Secondly, a design is being developed for a five-story connector building between Dana and Hallowell residence halls. The addition will provide 75 beds along with student activity space and the elements necessary to make the entire complex accessible to persons with disabilities. The addition will enhance the College's ability to build residence-hall communities including students of all four years. Finally, a centerpiece of the *Strategic Directions* plan is the construction of new space for the biology, engineering, and psychology departments. The early phases of this project are underway, and an architectural firm was selected in summer 2013.

TECHNOLOGY CAPITAL SPENDING

Technology capital spending fell into four major categories: academic, network and telecommunications, infrastructure and operations, and administrative information systems. For the academic program, audiovisual systems and built-in classroom computers were replaced in 16 classrooms, and the Lang Performing Arts Center received a major audiovisual upgrade. The College's wireless network infrastructure was expanded and upgraded, and cell-phone booster equipment was installed in several residence halls. New servers and increased storage capacity enhanced the technology infrastructure. Finally, technology capital funds were used for routine maintenance and upgrades as well as new initiatives such as e-billing and identity management administrative systems.

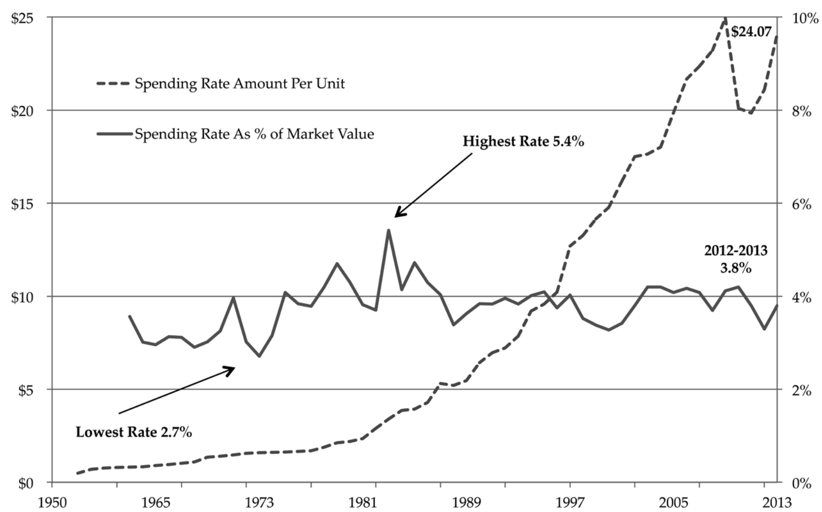
ADMISSIONS

The College received 6,615 completed applications for the Class of 2017. This was slightly ahead of the prior year, setting a new record. Of these, 947 were admitted, resulting in a selectivity rate of just 14 percent. The yield rate was 41 percent, generating an incoming first-year class of 388 students. There were also 11 transfer students.

In the matriculated class, median SAT scores remained similar to the prior year at 730 verbal, 720 math, and 730 writing, each out of a possible 800. Geographic diversity remained broad with 40 states and 23 countries represented.

The new Admissions and Financial Aid Committee of the Board of Managers, established last year, will review and monitor admissions and financial-aid practices, policies, and guidelines, and establish priorities as these continue to evolve.

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



ENDOWMENT

The market value of the endowment was $1.635 billion at June 30, 2013. The endowment return for the fiscal year was 11.9 percent. Strong performance was achieved by the College's U.S. and developed markets equity managers as well as the marketable alternatives program. Emerging markets equity managers and the private equity and real assets programs also generated positive but lower returns. The endowment was negatively impacted by the fixed-income allocation, which posted a loss for the 12-month period. This was because interest rates on U.S. Treasury bonds rose sharply in May and June of 2013, causing bond prices to decline. The endowment increased $136 million from the prior year to reach an all-time peak.

The College's trailing multiyear returns also compared favorably with other endowments. For the past 10 years, the endowment returned 8.9 percent on an annualized basis. For the same the 10-year period, the Russell 3000 Index and the MSCI All Country ex U.S. Index returned 7.8 percent and 9.1 percent annually, respectively. Most of the College's equity managers have performed better than their benchmark indexes. Longer term, the private equity and marketable alternatives allocations have also added value over equity benchmark indexes.

The endowment returns over previous trailing periods are shown in the table below:

Period Ended June 30, 2013	Ave. Annual Return
1-year	11.9%
3-year	12.5%
5-year	6.4%
10-year	8.9%

The endowment asset allocation is shown in Charts 4 and 5. As of the fiscal year-end, the asset classes were generally close to their target allocations. Over the past 12 months, the private equity allocation has dropped toward its target allocation as the endowment received significant distributions from its private-equity funds. During the past several years, the real assets allocation has risen toward its target allocation. In April 2013, the Investment Committee decreased the fixed-income allocation from 10 to 5 percent and increased the cash equivalents allocation from 5 to 10 percent. No future significant changes to the endowment allocation are anticipated at this time.

Despite the increasing allocations to the "alternative" assets classes of private equity, real assets, and marketable alternatives, the endowment has maintained a high level of liquidity. As of June 30, 2013, about $817 million (unaudited) of investments could be converted to cash within 30 days. The College has developed detailed models of cash needs for the budget and capital calls for private investments and monitors liquidity on an ongoing basis. The College's more liquid profile relative to other endowments has enabled it to take advantage of some promising investment opportunities in the past five years.

CHART 4
SWARTHMORE COLLEGE ENDOWMENT
ASSET ALLOCATION
June 30, 2013

	Percent of Total	Long-Term Target
Domestic Equity	21.2	20.0
International Equity	21.0	20.0
Marketable Alternatives	14.6	14.0
Private Equity	19.0	17.0
Real Assets	9.3	14.0
Total Equity & Alternatives	85.1	85.0
U.S. Bonds	6.1	5.0
Cash Equivalents	8.8	10.0
Total Fund	**100.0**	**100.0**

CHART 5
SWARTHMORE COLLEGE ENDOWMENT
HISTORY OF ASSET ALLOCATION

	1960	1970	1980	1990	2000	2010	2013
Common Stocks							
Domestic Stocks (%)	73	80	81	56	55	22	21
International Stocks	0	0	0	13	20	19	21
Private Equity (%)	0	0	0	5	3	22	19
Marketable Alternatives	0	0	0	3	3	15	15
Real Assets (%)	6	3	3	2	1	7	9
Fixed Income/Cash (%)	21	17	16	21	18	15	15
	100	100	100	100	100	100	100

DEBT

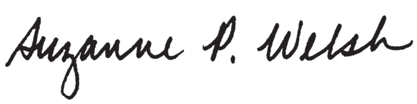
The College completed a $47.4 million tax-exempt bond financing in July 2013. Proceeds of the bond issue were used to repay maturities of the 2008 and 2009 bond issues. The issue also raised funds to finance new capital projects, the largest of which is the connector building between the Dana and Hallowell residence halls. This increased residential capacity will accommodate the planned modest increase in enrollment during the next several years.

Prior to preparing for the recent bond issue, the Finance Committee of the Board established a subcommittee to examine the College's debt structure. This group discussed the role of debt in the College's capital structure and risk/reward trade-offs related to the amount and structure of debt. The subcommittee also recommended that debt policy be reviewed formally on an annual basis by the Finance Committee.

The bond rating agencies, as part of the process of issuing the new debt, conducted comprehensive reviews of the College. Both agencies reaffirmed their highest ratings for Swarthmore (Aaa from Moody's and AAA from Standard & Poor's). These reviews focused not just on financial strength but also on governance, admissions demand, enrollment trends, fundraising, and physical facilities.

CONCLUSION

Swarthmore's enviable financial strength secures its leadership position in liberal arts education and positions the College well to embark on implementing the initiatives of the *Strategic Directions* report, a comprehensive strategic planning effort led by President Rebecca Chopp. This implementation, however, takes place in a rapidly changing environment for private higher education and demands a thoughtful approach. Swarthmore has been well-served by its history of prudent financial management. In order to anticipate and better prepare for unexpected events, the College will continue to incorporate ongoing scenario analysis and contingency planning into the annual financial calendar. These conversations will integrate perspectives across Board committees. Financial planning will emphasize financial sustainability and seek to introduce more flexibility into the financial model of the College. New initiatives will be undertaken only when funding for them has been secured. The implementation of the strategic plan will be done in phases with periodic assessment and adjustments. In conclusion, the College looks forward to a period of progress and improvement as strategic initiatives are implemented, while holding fast to long-held financial principles amid a changing environment.



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 2012–2013 Financial Report and is responsible for its accuracy and consistency with the financial statements.

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

Management believes that Swarthmore College maintained an effective internal control system over financial reporting, for the fiscal year ended June 30, 2013, and further, that the financial statements fairly represent the financial condition of the College as of June 30, 2013, and the operating results and cash flows for the year ended June 30, 2013.

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

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 30,2013 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, 2013, 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.

Other Matter

We have previously audited Swarthmore College's June 30, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP (signed)
Philadelphia, PA
September 30, 2013

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as of June 30, 2013 and 2012

(in thousands)

ASSETS	**2013**	**2012**
Cash and cash equivalents	$ 23,343	$ 32,265
Accounts receivable, net	1,236	2,397
Prepaid expenses and inventories	3,239	3,500
Contributions receivable	27,816	17,006
Student loans receivable, net	1,394	1,663
Employee mortgages receivable	12,848	12,817
Assets restricted to investment in property and equipment	6,416	17,319
Property and equipment, net	246,933	239,966
Investments, at market		
Endowment	1,634,685	1,498,775
Life income and annuity	41,445	40,713
Other	76,650	39,267
Total assets	**$ 2,076,005**	**$ 1,905,688**
LIABILITIES		
Accrued compensation	$ 7,447	$ 7,069
Payables and other accruals	7,492	8,813
Student deposits	2,170	2,239
Deferred payments and other liabilities	59,997	45,706
Refundable government loan funds	1,742	1,742
Bonds and notes payable	206,464	212,864
Total liabilities	**285,312**	**278,433**
NET ASSETS		
Unrestricted	$ 693,556	$ 638,391
Temporarily restricted	899,189	802,184
Permanently restricted	197,948	186,680
Total net assets	**1,790,693**	**1,627,255**
Total liabilities and net assets	**$ 2,076,005**	**$ 1,905,688**

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	-	-	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)		-
Net assets released from restrictions	6,199	(6,199)		-
Total operating revenue	**132,522**	**6,136**	**-**	**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**	**-**	**-**	**128,147**
Increase in net assets from operating activities	**4,375**	**6,136**	**-**	**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	-
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)	-
Net assets released from restrictions	3,127	(3,127)	-	-
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

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2012

(in thousands)

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

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended June 30, 2013 and 2012

(in thousands)

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 163,438	$ (14,997)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	7,293	7,123
Loss on extinguishment of debt	0	578
Amortization of bond premium	(1,674)	(1,438)
Donor restricted gifts	(35,035)	(8,568)
Net unrealized and realized gains on investments	(165,533)	(18,690)
Change in student loan reserve	(55)	22
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, prepaid expenses and inventories	(9,388)	345
Change in deferred payments and other liabilities	14,278	10,247
Change in student deposits, payables and accruals	(3,065)	1,347
Net cash used by operating activities	**(29,741)**	**(24,031)**
Cash flows from investing activities		
Payments for property and equipment	(12,207)	(12,171)
Proceeds from sale of investments	1,131,171	867,163
Purchase of investments	(1,139,650)	(863,437)
Student loans and employee mortgages advanced	(1,340)	(704)
Payments on students loans and employee mortgages	1,633	2,374
Net cash used by investing activities	**(20,393)**	**(6,775)**
Cash flows from financing activities		
Donor restricted gifts	35,035	8,568
Change in assets restricted to investment in property and equipment	10,903	(17,282)
Proceeds from bonds and notes payable	0	63,458
Payments on bonds and notes payable	(4,726)	(24,106)
Net cash provided by financing activities	**41,212**	**30,638**
Change in cash and cash equivalents	**(8,922)**	**(168)**
Cash and cash equivalents, beginning of year	32,265	32,433
Cash and cash equivalents, end of year	**$ 23,343**	**$ 32,265**
Interest paid	$ 8,370	$ 7,852
Non-cash capital expenditures in accounts payable	$ 2,053	$ 2,178

See accompanying notes to consolidated financial statements.

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

1. Summary of Significant Accounting and Reporting Policies

Reporting Entity

The consolidated financial statements of Swarthmore College include a wholly-owned, for-profit company, Marjay Productions, Inc., which was received as a bequest by a donor. The purposes of Marjay Productions, Inc. are to hold copyrights of the donor's works and 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 May 2011, FASB issued Fair Value Measurement (Topic 820): An amendment to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The amendment includes the expansion of the fair value disclosures to include the leveling of long-term debt and for the disclosure of any investment transfers to and from Levels I, II and III in the fair value hierarchy. This amendment is effective for fiscal years beginning after December 15, 2011. The disclosures pertaining to these topics have been made in accordance with this amendment for consolidated financial statements beginning in Fiscal Year 2013 and Fiscal Year 2012, respectively.

Reclassification
Certain 2012 amounts have been reclassified in the College's consolidated financial statements to conform to the 2013 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 $9,927 and $5,576 were so designated for the years ended June 30, 2013 and 2012, 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 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.

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 .95% to 5.06%.

(dollars in thousands)

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 $2,393 and $2,291 as of June 30, 2013 and 2012, 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, 2013, the date of the financial statements, through September 26, 2013, the date of the issuance of the financial statements for subsequent events. 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 College had no other reportable subsequent events between June 30, 2013 and September 26, 2013.

2. Contributions Receivable

Contributions receivable at June 30, 2013 and 2012 were as follows:

Due in:	2013	2012
Less than one year	$14,500	$7,374
One to five years	11,013	6,715
More than five years	3,464	5,374
	28,977	19,463
Unamortized discount	(487)	(1,996)
Allowance for doubtful contributions	(674)	(461)
	$27,816	$17,006

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, 2013 and 2012.

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, 2013 and 2012. The College performs additional due diligence and reviews these for reasonableness. The College has assessed factors including, but not limited to, managers' compliance with the *Fair Value Measurement* standard in their audited financial statements, price transparency and valuation policies, and redemption conditions and restrictions.

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

Annuity, unitrust and life income funds periodically pay either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate at a designated time, usually upon the death of the last designated income beneficiary. The College's remainder interest is then available for use by the College as designated by either the donor or the Board of Managers. The actuarial liability for the charitable gift annuities as of June 30, 2013 and 2012 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, 2013 and 2012 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 2013 and 2012, the distribution of the endowment income exceeded the net yield (interest and dividends less fees) generated by endowment fund investments: therefore, $43,159 and $37,016, respectively, of net realized gains were allocated to the endowment spending distribution.

Net realized and unrealized gains on permanently restricted investments are included as either unrestricted or temporarily restricted revenues unless stipulated by the donor for perpetuity. The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment, use and management of the College's endowment funds. Commonwealth of Pennsylvania law permits the College to define as income each year a portion of these net realized gains. The amount so designated when added to net yield (interest and dividends less fees) cannot exceed 7% of the average of the past three fiscal years' fair values of the permanently restricted assets. The difference between the endowment distribution and the total income is included in unrestricted net assets. Pursuant to this Commonwealth of Pennsylvania law and at the direction of the Board of Managers, $11,606 and $11,273 of net realized gains on endowments which have their earnings distributed for general purposes were included in unrestricted revenues in fiscal years 2013 and 2012, respectively.

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, 2013, management estimates that it could have liquidated within 30 days approximately $817 million (unaudited) to meet short-term needs and provide investment flexibility.

(dollars in thousands)

Investment activity for fiscal years 2013 and 2012 was:

	Endowment and similar funds	Annuity and Life Income funds	Other	2013 Total	2012 Total
Investments, beginning of year	$ 1,498,775	$ 40,713	$ 39,267	$ 1,578,755	$ 1,563,791
Contributions	10,742	777		11,519	10,218
Maturities of annuity and life income funds		(2,913)		(2,913)	(6,762)
Other		(965)	390	(575)	(17)
Transfers in	10,634		36,224	46,858	33,397
Transfers out	(5,682)			(5,682)	(5,226)
	15,694	(3,101)	36,614	49,207	31,610
Interest and dividends	20,315	1,295		21,610	18,870
Unrealized and realized gains and (losses)	161,437	3,327	769	165,533	18,689
Investment management fees	(5,678)			(5,678)	(4,502)
	176,074	4,622	769	181,465	33,057
Payments to annuity and life income beneficiaries		(789)		(789)	(845)
Endowment spending distribution					
Unrestricted	(54,533)			(54,533)	(47,888)
Temporarily Restricted	(1,325)			(1,325)	(970)
	(55,858)	(789)	0	(56,647)	(49,703)
Investments, end of year	$ 1,634,685	$ 41,445	$ 76,650	$ 1,752,780	$ 1,578,755

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

- Level I-Quoted prices are available in active markets for identical investments as of the reporting date.
- Level II- Pricing inputs, including broker quotes, are generally those other than exchange-quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.
- Level III- Pricing inputs are unobservable for the investment and include situations where a/ there is minimal, if any, market activity for the investment and b/ the inputs used in determination of fair value require significant management judgment or estimation.

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

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

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

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

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

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

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

- 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.

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

A summary of investments, measured in accordance with the *Fair Value Measurement* standard, as of June 30, 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	Public 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

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

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

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

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

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

For the fiscal years ended June 30, 2013 and 2012 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, 2013 and 2012 were:

	2013	2012
Private equity	$136,913	$137,328
Real estate	46,159	60,124
Natural resources	46,669	35,726
Total unfunded commitments	$229,741	$233,178

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, 2013 and 2012 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2013	2,453,643	$678.10	$24.07
June 30, 2012	2,389,344	$628.49	$21.09

4. Property and Equipment

Property and equipment at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Land	$5,757	$5,757
Buildings and improvements	333,110	320,614
Construction in progress	3,641	2,525
Equipment	18,934	18,472
Works of art, historical treasures and similar assets	4,591	4,591
	366,033	351,959
Accumulated depreciation	(119,100)	(111,993)
	$246,933	$239,966

Interest payments totaling $300 and $253 were capitalized in 2013 and 2012, respectively.

(dollars in thousands)

5. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2013 and 2012 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.

	2013	2012
Donors	$13,162	$13,373
Postretirement health benefit	11,494	11,917
Conditional gift liability	24,759	10,000
Employees and former employees	4,603	4,809
Capital acquisition	4,936	4,592
Conditional asset retirement obligation	1,043	1,015
	$59,997	$45,706

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, 2013 and 2012 are as follows:

	2013	2012
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	$ 7,422	$ 4,756
Actives fully eligible to retire	2,877	2,318
Retirees	1,618	1,583
Total	11,917	8,657
Service cost	529	353
Interest cost	465	486
Actuarial (gain) / loss	(1,194)	2,644
Benefits paid	(224)	(223)
Postretirement benefit obligation at end 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

(dollars in thousands)

	2013	2012
Change in plan assets		
Employer contribution	$ 224	$ 223
Benefits paid	(224)	(223)
Fair value of plan assets at end of year	$ -	$ -
Funded status		
Postretirement benefit obligation at end of year	$ 11,494	$ 11,917
Fair value of plan assets at end of year	-	-
Funded status end of year	11,494	11,917
Current liability	313	338
Non-current liability	11,181	11,579
Total	$ 11,494	$ 11,917
Components of the net periodic postretirement benefit cost		
Service cost	$ 529	$ 353
Interest cost	465	486
Amortization of actuarial (gain) / loss	51	(35)
Total	$ 1,045	$ 804
OPEB changes other than net periodic postretirement benefit cost		
New actuarial (gain) / loss	$ (1,194)	$ 2,644
Amortization of unrecognized amounts	(50)	35
Total	$ (1,244)	$ 2,679
Unrecognized amounts and amortization amounts in the following year:		
Net actuarial (gain) / loss	297	1,541
Total	$ 297	$ 1,541
Amortization amounts in following year (estimate)		
Net actuarial (gain) / loss	-	30
Total	$ -	$ 30

(dollars in thousands)

Assumptions and effects:				
Medical trend rate next year		8.00%		9.00%
Ultimate trend rate		5.00%		5.00%
Year ultimate trend rate is achieved		2013		2016
Discount rate used to value end of year accumulated postretirement benefit obligation		4.62%		3.90%
Discount rate used to value net periodic postretirement benefit cost		3.90%		5.48%
Effect of a 1% increase in health care cost trend rate on:				
Interest cost plus service cost	$	210	$	155
Accumulated postretirement benefit obligation	$	1,947	$	2,219
Effect of a 1% decrease in health care cost trend rate on:				
Interest cost plus service cost	$	(166)	$	(125)
Accumulated postretirement benefit obligation	$	(1,582)	$	(1,783)
Measurement date		6/30/2013		6/30/2012

Year Beginning July 1st	Estimated Future Benefit Payment
2013	313
2014	366
2015	437
2016	503
2017	543
2018 - 2022	3,414

6. Bonds and Notes Payable

Bonds and notes payable at June 30, 2013 and 2012 were:

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Swarthmore Borough Authority				
1998 Revenue Bonds	$1,509	$1,495	$3,024	$2,930
2002 Revenue Bonds	-	-	2,177	2,172
2006A Revenue Bonds	80,188	78,497	83,992	78,660
2008 Revenue Bonds	25,594	25,716	26,808	26,144
2009 Revenue Bonds	8,593	8,583	8,916	8,815
2011 Revenue Bonds	30,157	29,454	31,293	29,985
2011B Revenue Bonds	16,477	16,451	17,620	17,024
2011C Revenue Bonds	46,397	45,425	48,131	46,280
Other notes payable	843	843	865	854
Total bonds and notes payable	$209,758	$206,464	$222,826	$212,864

The College bond ratings were Aaa/AAA for the years ended June 30, 2013 and 2012.

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, 2013 and 2012.

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. Additional information regarding this bond issue can be found within the Subsequent Events note on page 8.

On December 21, 2011, the College issued $14,380 aggregate principal amount of 2011B Revenue Bonds (2011B Revenue Bonds) through the Swarthmore Borough Authority (the Authority) at a premium. The proceeds will be used for various tax-exempt capital projects and to fund the costs of issuing the 2011B Bonds. The 2011B Bonds have interest rates of 2.0% to 5.0% depending upon the maturity dates, which range from 2013 to 2021 in annual amounts ranging from $280 to $11,595. Interest is payable semi-annually.

On December 21, 2011, the College issued $46,280 aggregate principal amount of taxable 2011C Revenue Bonds (2011C Revenue Bonds) through the Swarthmore Borough Authority (the Authority). The proceeds were used for general operations, to advance refund a portion of the 2002 Revenue Bonds, par value of $19,665 with maturity dates between 2013 and 2020 and interest rates of 4.75% to 5.25% depending upon the maturity dates, and to fund the costs of issuing the 2011C Bonds. The 2011C Bonds have interest rates of .91% to 3.10% depending upon the maturity dates, which range from 2013 to 2021 in annual amounts ranging from $3,090 to $21,420. Interest is payable semi-annually.

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

On July 29, 2009, the College issued $8,525 aggregate principal amount of 2009 Revenue Bonds (2009 Bonds) through the Swarthmore Borough Authority (the Authority) at a premium. The proceeds were used to refund a portion of the 1998 Revenue Bonds which were scheduled to mature on September 15, 2018 and September 15, 2028, and to fund the costs of issuing the 2009 Bonds. The 2009 Bonds have interest rates of 2.0% and 5.0% (priced to yield 1.56%) and were scheduled to mature on September 15, 2013. On July 31, 2013, the 2009 Bonds were refunded in total using proceeds from the 2013 Revenue Bonds (2013 Bonds). Interest on the 2013 Bonds 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 were scheduled to mature on September 15, 2013. On July 31, 2013, the 2008 Bonds were refunded in total using proceeds from the 2013 Revenue Bonds (2013 Bonds). Interest on the 2013 Bonds is payable semi-annually.

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

(dollars in thousands)

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

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 Bond that remains outstanding has an interest rate of 4.75%, a maturity date of September 15, 2013, and a balance of $1,495. The 1998 Revenue Bond is collateralized by a pledge of unrestricted College revenues.

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

	Principal	Interest	Total
2013-2014	$38,761	$7,407	$46,168
2014-2015	4,280	6,499	10,779
2015-2016	4,370	6,414	10,784
2016-2017	4,475	6,315	10,790
2017-2018	4,595	6,195	10,790

Interest paid on bonds and notes payable was $8,370 and $7,852 for the years ended June 30, 2013 and 2012, respectively.

7. Retirement Benefits

Retirement benefits for all eligible employees of the College are individually funded and vested under a defined contribution Sec. 403(b) retirement plan with Teachers Insurance and Annuity Association of America (TIAA), Vanguard Group of Investment Companies or Calvert Group. Under this arrangement, the College makes monthly contributions as defined in the Plan to the accounts of all employees. The College's contributions under this Plan are included in operating expenses and were $4,960 in 2013 and $4,776 in 2012.

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 $739 and $644 at June 30, 2013 and 2012 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, 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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment		$700,465	$169,214	$869,679
Term Endowment		75,549		75,549
Quasi Endowment	$553,547			553,547
Annuity and life income	6,592	16,815	2,840	26,247
Student loans	1,979			1,979
Property and equipment				
Unexpended		2,086		2,086
Net investment in property and equipment	63,873			63,873
Other purposes	12,400	7,269	14,626	34,295
	$638,391	$802,184	$186,680	$1,627,255

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 and $21 at June 30, 2013 and 2012 respectively.

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment total, June 30, 2011	$ 544,505	$ 802,874	$ 161,104	$ 1,508,483
Contributions	2,990		3,672	6,662
Transfers	(2,597)	(1,298)	4,427	532
Interest and dividends	17,573		11	17,584
Unrealized and realized gains (losses)	43,466	(24,592)		18,874
Investment management fees	(4,502)			(4,502)
Endowment spending distribution	(47,888)	(970)		(48,858)
Endowment total, June 30, 2012	$ 553,547	$ 776,014	$ 169,214	$ 1,498,775
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

9. Expenses by Natural Classification

Expenses for the years ended June 30, 2013 and 2012 were incurred for the following:

	2013	2012
Compensation		
Faculty	$33,361	$32,663
Staff	42,061	39,781
Student	1,381	1,313
Amortization	272	232
Life income payments and other adjustments	1,852	1,894
Bookstore merchandise for resale	579	544
Dining services food	2,028	2,026
Equipment	2,577	2,932
Foreign study program expenses	2,457	2,539
Insurance	794	724
Interest	6,448	6,275
Library materials	2,270	2,161
Services, supplies and other	17,876	17,458
Real estate taxes	1,036	958
Travel	3,755	3,542
Telephone	46	51
Utilities	2,061	2,111
Depreciation	7,293	7,123
	$128,147	$124,327

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, 2013, 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, 2013 and 2012, the College had outstanding commitments for construction contracts of $2,859 and $3,158, respectively.

CORPORATION AND BOARD OF MANAGERS