SWARTHMORE COLLEGE FINANCIAL REPORT 2008–2009

SWARTHMORE

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SWARTHMORE COLLEGE • 500 COLLEGE AVENUE • SWARTHMORE PA 19081
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FINANCIAL REPORT 2008–2009

The 2008–2009 fiscal year was a challenging one defined by the historic declines in the worldwide financial markets. The credit crisis, which began in 2007, accelerated in fall 2008. Swarthmore College's endowment opened the fiscal year with a value of $1.413 billion. It hit a low point in late winter before recovering to end the year with a value of $1.129 billion on June 30, 2009. Swarthmore was well positioned going into the crisis, and the College's prudent investment policies cushioned the decline in the endowment. The magnitude of the decline, however, coupled with the budget's high dependence on the endowment, makes it impossible to avoid a period of budgetary adjustment. Despite recent improvements in the equity markets, they are unlikely to return to their pre-crisis levels in the near future. The College must adjust its budget to the realities of a smaller-sized endowment.

The College maintained its strong financial condition last year notwithstanding the endowment downturn. In recognition of this, the Moody's and Standard & Poor's rating agencies reaffirmed their highest ratings of Aaa and AAA, respectively, for Swarthmore's tax-exempt bonds. The College adopted a fiscally prudent budget for 2009–2010, and the Board of Managers established an Ad Hoc Financial Planning Group to address longer-term financial challenges. Significant progress has been made in developing a plan to return to long-term financial sustainability over the next several years. The final plans will be presented to the Board of Managers at its December 2009 meeting.

The entire College community has made extraordinary efforts to assist in this process. Academic and administrative departments conserved funds and finished the year under budget. Faculty and staff accepted a salary freeze for the current year. There has been widespread participation in faculty, staff, and student meetings on the financial situation; and many suggestions and comments have been sent to the Ad Hoc Group.

Global economic recovery is predicted to be slow, and the environment facing higher education will continue to be challenging. The College's sound financial position, its prudent and conservative financial and investment policies, the engagement of the campus community, and the commitment of alumni are invaluable assets that ensure the College will emerge from this period as strong as ever.

This report presents the financial results of the 2008–2009 fiscal year and discusses the actions the College is taking to address the budgetary challenges. Longer-term statistical information is presented in Chart 1, and the audited financial statements appear following this report.

TRANSITIONS

This was the last year of Alfred H. Bloom's 18-year presidency of the College. His long history with the College, combined with his command of financial matters, enabled him to develop with the Board of Managers a thoughtful budgetary process that is sensitive to preserving Swarthmore's distinctive quality in this difficult environment. Rebecca Chopp, who joined the College in July as its 14th president and who brings extensive financial experience in higher education, has assumed the leadership of the planning process to sustain academic excellence while meeting our financial goals.

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

	1970	1980	1990	2000	2008	2009
STUDENT CHARGES						
Average on-campus enrollment	1,097	1,298	1,281	1,356	1,379	1,384
Average foreign-study enrollment[1]				80	79	83
Comprehensive charges ($)	3,435	7,080	19,450	31,690	45,700	47,804
Total expenditures and mandatory transfers, including financial aid ($000)	7,160	14,891	46,537	92,721	137,267	143,710
Per student ($)	6,527	11,472	36,329	64,569	94,147	97,962
Per student, excluding financial aid ($)	5,983	10,330	31,795	55,718	81,073	83,084
Student charges as percentage of budget/student, excluding financial aid	57	69	61	57	56	58
ADMISSIONS DATA						
Applications completed	2,332	1,866	3,233	3,956	6,121	5,575
Percentage accepted	23	40	32	24	16	17
Percentage enrolled (of those accepted)	57	44	34	39	39	41
FINANCIAL AID DATA						
Percentage of students receiving need-based Swarthmore scholarships	36	39	45	51	49	49
Average Swarthmore scholarship ($)	1,504	2,478	8,661	17,070	25,008	29,151
Average Swarthmore scholarship as percentage of charges	44	35	45	54	55	61
Average financial need ($)	N/A	4,108	12,580	22,922	31,199	32,872
Average Swarthmore scholarship as percentage of average need	N/A	60	69	74	80	89
GIFTS AND GRANTS RECEIVED[2]						
Annual giving ($000)	361	1,000	2,035	3,439	5,303	4,373[4]
Other gifts and bequests ($000)	1,076	4,259	9,982	14,656	25,439	14,843
Government grants ($000)	321	1,493	2,092	2,014	1,469	1,619
Total ($000)	1,758	6,752	14,109	20,109	32,211	20,835
Annual Fund participation (%)	42.2	48.5	58.5	55.3	58.0	55.0
ENDOWMENT						
Original value ($000)	17,982	26,559	80,649	155,070	349,137	363,239
Market value ($000)	48,514	91,557	336,224	963,676	1,412,609	1,128,675
Unit market value ($)[3]	37.29	61.50	181.75	473.10	605.40	478.25
Distribution/unit ($)	1.41	2.20	6.44	14.77	23.21	24.95
DEBT OUTSTANDING ($000)	0	0	37,215	78,632	184,487	180,788

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.

The Investment Committee of the Board of Managers is responsible for overseeing the investment of the endowment. Samuel L. Hayes III ’57 ended his term as chair of the Committee on June 30, 2009. Sam had served as chair since 2000 and as vice chair from 1985 to 1999. Sam will remain on the committee. Christopher M. Niemczewski ’74 succeeded Sam as chair. Chris has served on the Committee since 1997. The endowment was protected during this downturn because of the prudent policies adopted by the Investment Committee over many years. The increased diversification of the endowment and the adherence to a disciplined endowment spending guideline achieved during Sam’s term as chair proved particularly helpful.

The Finance Committee of the Board of Managers is responsible for overall financial matters of the College, including the budget. This year, Sujatha A. Srinivasan ’01 and Lawrence J. Richardson ’78 ended their terms on the Committee. Both served on subcommittees that assisted in the College’s bond issues, and Larry was also a member of the Audit Subcommittee of the Finance Committee.

The College appreciates the service of these individuals and their willingness to contribute their financial expertise to the stewardship of College resources. A complete listing of members of the Investment and Finance Committees and the Board of Managers is shown on the inside back cover of this report.

COST OF A SWARTHMORE EDUCATION: RESULTS OF THE YEAR

The cost to educate a Swarthmore student in 2008–2009 was $83,084, as shown in Chart 2. Half (50 percent) of this cost was paid for by the endowment and gifts. The philanthropy of donors, both past and present, contributed an average of $41,885 toward each student’s education last year. The magnitude of this amount also points out the dependence of the College budget on the endowment.

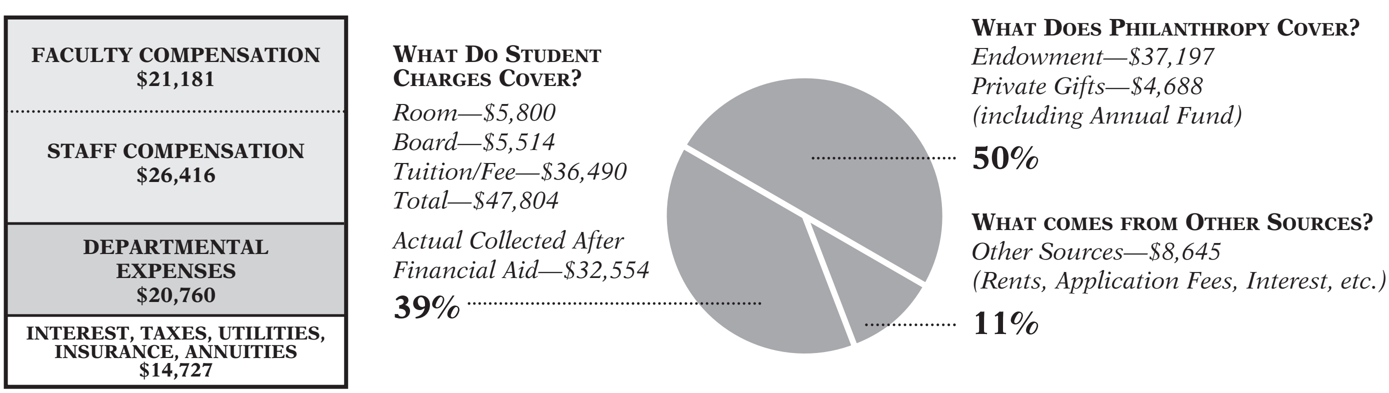
Only 39 percent of the cost of educating each student was paid for by student tuition, room, and board (net of financial aid). The remaining 11 percent of revenues came from other miscellaneous sources such as application fees and rental and mortgage income on faculty and staff housing.

Total expenses for the 2008–2009 fiscal year were $121.9 million, an increase of 3.1 percent over the prior year. Faculty and staff compensation, at 25 percent and 32 percent, respectively, were the largest expense components. Other expenses, such as the non-compensation departmental budgets, interest, taxes, and utilities, accounted for the remainder.

Average on-campus enrollment for the year was 1,384 students. In addition, a total of 165 students (an average of 83 per semester) participated in foreign study programs

CHART 2
FINANCING A SWARTHMORE EDUCATION 2008–2009

WHAT IS THE COST OF A YEAR AT SWARTHMORE?
$83,084
(per student, excluding financial aid)



over the year. Tuition, fees, and room and board in 2008–2009 were $47,804. This was an increase of 4.6 percent over the prior year.

Last year, 49 percent of students qualified for financial aid. The College is committed to a generous financial aid policy that provides a package of grants and student work opportunity to meet the demonstrated need of all aided students. The 2008–2009 fiscal year was the first year in which financial aid packages were loan-free—that is, they did not include a loan component. The College had offered loan-free packages previously to students from the lowest income families, and last year it extended this to all financially aided students. Loans were replaced with College scholarships for all aided students. Because of the College's endowment and fundraising success, it was one of a select group of institutions able to adopt this policy. The average scholarship of all aided students in 2008–2009 was $29,151.

The endowment distribution to support the budget last year was $54.6 million. As shown in Chart 3, the endowment spending rate was 4.1 percent of the value of the endowment at June 30, 2008. This was just below the midpoint of the spending range (4.25 percent). Because this is calculated using the beginning of the fiscal year value, it does not reflect the downturn in the endowment. With a smaller endowment, the spending rate will increase unless spending is reduced. The endowment spending guideline has a recommended spending rate range of 3.75 percent to 4.75 percent. Spending within this range is required over the long term in order to achieve intergenerational equity—that is, it is the spending level that will maintain the purchasing power of the endowment over time and, thus, the ability to provide equitable support for future generations.

College expenses in total increased 3.1 percent over the prior year. Faculty and staff received salary increases and met their compensation goals. Fringe benefits continued to exert pressure on the budget as health insurance premiums increased faster than inflation. The College participates in a health insurance buying consortium, which has helped contain these premium increases. There were limited increases in other expenses in the budget. Most academic and administrative budgets received little, if any, increase. However, pressures in information technology, admissions, and library periodicals costs, along with real estate taxes, and food and energy costs required additional funds for those items.

The 2008–2009 budgets were established prior to the beginning of the fiscal year and before the economic downturn began in the fall. Some adjustments were made in response to the unfolding crisis. Despite the already-constrained budgets, departments were asked to conserve even further; and, at the end of the fiscal year, most departments succeeded in coming in under budget. In addition, when staff positions became open during the year through resignations, they were held open where possible in order to save money and generate flexibility for the budget.

CAPITAL BUDGET

The College sets aside funds from the operating budget for technology and facilities capital needs. In 2008–2009, as the economic crisis unfolded, spending for capital projects slowed. This affected the facilities capital budget more severely although there was also some deferral of technology projects. Last year, facilities projects focused on office relocations and the usual annual maintenance. There were no new large projects.

Work continued to determine the feasibility of a development project in the Swarthmore Borough town center. It would include an inn, restaurant, retail space, and possibly the College bookstore. Progress has been slow, in part due to the difficult economic conditions.

The capital projects budget has been significantly reduced for the next three years in response to pressures to reduce endowment spending. A return to a sustainable level for the facilities capital budget will be part of the longer term budget planning. It is unlikely, however, that spending will be as high as it has been in recent years.

GIFTS

The College received $20.8 million in gifts last year. This was lower than the record $32.2 million of the prior year, but major gifts and bequests vary significantly from one year to the next. After adjusting for a change in classification of certain unrestricted gifts and bequests, the Annual Fund declined only 4 percent from the prior year, a relatively mild decline, given the economy. Alumni participation remained strong at 55 percent.

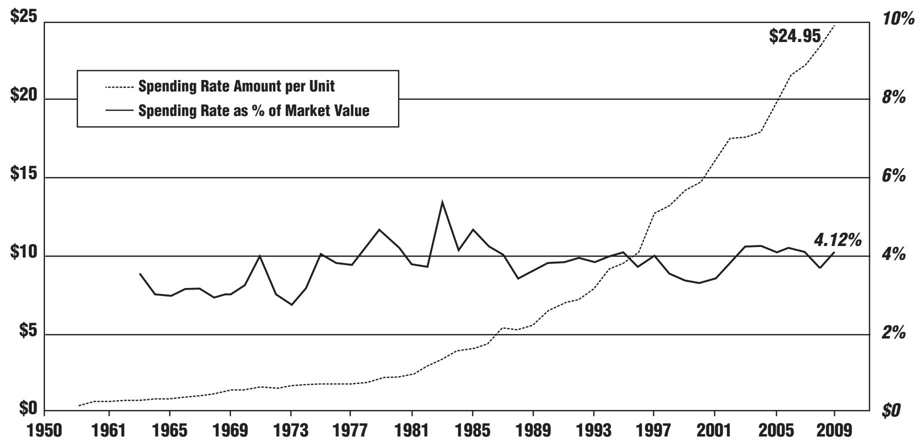
The philanthropy of alumni, parents, friends, and institutions furthers Swarthmore's mission in significant ways. Among the most important is the financial aid program, which benefits about half of the student body. Support for financial aid comes in several forms, including gifts that create named and endowed scholarships, gifts to the Annual Fund, and gifts made by bequest (a single estate gift realized last year provided $1 million in new scholarship aid.) All ensure that Swarthmore can maintain its commitment to need-blind admissions and to meeting the full financial need of all students. Swarthmore's financial aid policy is critical to its goals of equal access, diversity, and providing an academic and social experience for undergraduates that shapes leaders who will have a positive impact on society.

In addition to financial aid, support from the College community helps to ensure that the academic program not only maintains the highest standards of excellence but also evolves in ways that will serve students well in the 21st century. One recent example is Swarthmore's Arabic language program. Introduced in 2006, it has expanded from a first-year, small intermediate class to four years of study with the help of significant gifts from alumni, parents, The Andrew W. Mellon Foundation, and the National Endowment for the Humanities. In just three years, the program has produced four Fulbright Scholars.

Individual and institutional donors have also joined forces to bring 22 new pieces of computerized, state-of-the-art equipment to our engineering program. With the help of a matching grant from the Alden Trust, alumni and parents are supporting acquisitions that will enhance the classroom, laboratory, and research experience for engineers and non-engineering majors alike, giving them the chance to explore cutting-edge developments in engineering and providing outstanding preparation for careers and advanced research after graduation.

Note: A total of $17.3 million in gifts and grants was recognized in the financial statements according to generally accepted accounting principles. The difference between this and the $20.8 million discussed above is related primarily to the accounting treatment of pledges and government grants.

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



ADMISSIONS

The College maintained strong admissions statistics for its work last year despite the economic downturn. There were 5,575 completed applications for the Class of 2013, the second highest number of applications in the College's history. Swarthmore admitted 969 students, generating an impressive 17 percent selectivity ratio. The incoming first-year class had 394 students, a 41 percent yield.

The median SAT scores of the incoming students were 720 (verbal), 720 (math), and 720 (writing), each out of a total possible score of 800.

Twenty-five transfer students were admitted in addition to the new first-year students.

ENDOWMENT

The market value of the endowment on June 30, 2009 was $1.129 billion, a decline of $283.9 million from the prior fiscal year. The investment return for the year was -16.8 percent. Although the return was negative, it outperformed the benchmark (85 percent equity index/15 percent bond index) by 5.5 percent. For comparison, the S&P 500 Stock index returned –26.2 percent for the year while the MSCI AC World ex U.S. index of international equities was -30.5 percent.

The Investment Committee has long recognized the importance of the endowment to the College budget. It has emphasized investment strategies and policies designed to protect the endowment as much as possible in downturns, while still providing the long-term returns necessary to enable the College to remain financially competitive with its peers. The principal reason that the endowment performed relatively well last year, in an extremely difficult year, was the Committee's long-standing practice of choosing managers who recognize the importance of capital preservation, as well as, more obviously, produce superior long-term returns. Endowment performance was also helped last year by one long-standing policy and one medium-term change in asset allocation. The endowment holds between 10 and 15 percent of its assets in Treasury bonds and inflation-protected securities, the only asset category to both provide positive returns and remain liquid during the extreme parts of the crisis. And, over the last decade, the endowment has diversified from public equities into marketable alternatives (long/short equity strategies and absolute return strategies), which also helped performance.

Swarthmore avoided several of the issues that other endowments faced. First and most importantly, the College maintained adequate liquidity to meet budget needs and funding for private investment commitments. When an endowment makes a commitment to invest in a private equity or real asset fund, the money is typically "called down" over a period of several years. In addition to providing cash for the operating budget, an endowment must also be able to make cash available for these capital calls. During this crisis, investors discovered that it was not easy to withdraw cash from hedge funds or some commingled investment funds and that selling more liquid securities at depressed prices was not attractive. Swarthmore's level of unfunded private investment commitments was lower than many other large endowments; and that, combined with the liquidity of the bond allocation, ensured that the College had adequate liquidity to meet needs.

Next, the College's conservative policies provided protection for its operating cash. Several money funds that held some troubled mortgage securities suffered losses and had delays in meeting withdrawal requests. The College's operating cash was invested in individual Treasury bills and high-quality funds and avoided these problems.

Finally, Swarthmore had previously discontinued the practice of securities lending and thus avoided the impact of disruption and bankruptcy within the investment banking industry.

Investment activity over the 2008–2009 fiscal year was slower because of the economic uncertainty. The pace of new commitments to private equity and private real assets funds was significantly reduced in order to preserve liquidity within the endowment. Over the year, commitments were made to seven private equity partnerships, four real estate partnerships, and three energy partnerships. The natural resource allocation was increased, and exposures to public natural resource stocks and commodities were established. The College was able to gain access to some high quality investment managers. Several were hired, resulting in an upgrade of the manager roster. Lastly, the College was able to invest in some securities offered at very depressed prices by distressed sellers. They included some debt and real estate securities and some private-equity secondary funds. The asset allocation of the endowment is shown in Charts 4 and 5.

DEBT FINANCING

The College's total debt outstanding on June 30, 2009 was $180.8 million. This amounted to a prudent ratio of 16 percent of the endowment value at the end of the year. Subsequent to the close of the fiscal year, a portion of the outstanding 1998 bond issue was refinanced in order to achieve interest rate savings. The 2009 revenue bonds ($8.525 million) closed in July. They mature in 2013 and have an interest rate of 1.6 percent.

The Moody's and Standard & Poor's rating agencies reaffirmed the College's Aaa and AAA ratings, respectively.

RESPONSE TO THE ECONOMIC CRISIS

Evaluating the implications of the economic downturn and developing a plan to return the College to financial sustainability became the crucial priority for the year. Significant efforts were devoted to designing a process to do this. It was challenging to resolve the tension between the need to develop a plan of action quickly and the importance of having a process that would maintain the strong bonds of trust in the Swarthmore community. The College's response to the Great Recession, as it is being called, was summarized best by President Rebecca Chopp in her Sept. 28, 2009 letter to the College community, excerpted below:

"At its meeting last December, the Board of Managers reviewed a series of financial projections and adopted from them a set of planning assumptions for which we needed to develop a coordinated response. Included in those assumptions was the expectation of a 30 percent decline in the endowment and a significant increase in the financial aid needs of students.

The Board also adopted a timetable for developing a response plan. Fortunately, the College was financially strong and well-positioned going into the crisis. The endowment spending rate was low; the endow-

ment investments included an allocation to Treasury bonds to help protect against declines in the equity markets; and the endowment had ample liquidity to meet investment and budgetary needs. As a result, the Board made the decision to allow a year for the development of the full plan, providing time for thoughtful deliberation and community involvement in establishing our plan of action. This approach also had the advantage of giving us time to watch how the situation would unfold before taking actions that had the potential to significantly damage the College. It has been a remarkable advantage for us to have had the time to craft the response that best maintains our academic excellence.

The Board established the Ad Hoc Financial Planning Group last winter. Comprising Board members, faculty, staff, and senior administrators, this group was charged with developing a plan to return the College to long-term financial sustainability over the next several years—in effect, to adjust the College budget to the realities of a smaller endowment. In the spring, the Board of Managers approved the 2009–2010 budget of $107 million, which included the first phase of the College's response. A salary freeze for faculty and staff, departmental budget reductions, and deferral of facilities capital projects were key components of the College's immediate response. With a responsible budget set for this fiscal year, the Ad Hoc Financial Planning Group was then able to focus on longer-term actions.

As described in a series of community meetings held last spring, the Ad Hoc Financial Planning Group was asked to address a potential $15 million budget gap—a figure derived using the planning assumptions mentioned earlier. This is the amount of new revenues and/or budget reductions needed to return the College to a 5 percent endowment spending rate over the next three to five years. Historically, 5 percent is the maximum average annual spending from the endowment that will preserve the purchasing power of the endowment over time and thus our ability to provide equitable support for future generations. The $15 million figure was based on an assumption of a 30 percent decline in the endowment. Over the summer, significant work took place and the framework of the '$15 million plan' was developed by the Ad Hoc Group.

Happily, the summer also saw some glimmers of recovery in the economy and positive returns in the financial markets. The endowment ended the 2008–2009 fiscal year with a value of $1.129 billion as of June 30, 2009. Its investment return was a negative 16.8 percent, rather than the planning assumption of negative 30 percent. Moreover, financial aid needs, while higher, fell within our estimates. The Ad Hoc Financial Planning Group and the Board of Managers have spent recent weeks trying to determine how much of the '$15 million plan' should be implemented in the next phase of our response. Although we are pleased with the recent positive news, the

CHART 4
ASSET ALLOCATION
June 30, 2009

	Percent of Total	*Long-Term Target*
Domestic Equity	24.5%	20.5%
International Equity	18.0	20.5
Marketable Alternatives	16.7	14.0
Private Equity	19.6	17.5
Real Estate	3.1	7.5
Natural Resources	4.0	5.0
Total Equity & Alternatives	85.9	85.0
U.S. Bonds	12.4	15.0
Cash Equivalents	1.7	0.0
Total Fund	**100.0**	**100.0**

CHART 5
SWARTHMORE COLLEGE ENDOWMENT HISTORY OF ASSET ALLOCATION

	1960	**1970**	**1980**	**1990**	**2000**	**2008**	**2009**
Common Stocks							
Domestic Stocks (%)	73	80	81	56	55	28	24
International Stocks (%)	0	0	0	13	20	18	18
Private Equity (%)	0	0	0	5	3	18	20
Marketable Alternatives (%)	0	0	0	3	3	13	17
Real Assets (%)	6	3	3	2	1	6	7
Fixed Income/Cash (%)	21	17	16	21	18	17	14
	100	100	100	100	100	100	100

endowment decline remains a fact and we have to adjust our budget accordingly. The volatility in the financial markets is likely to remain for some time, making it even more challenging to plan for the future.

At this point, the Board of Managers has determined that approximately $8 million of the plan should be implemented, over several years, as the next phase in the College's response. This next phase will allow us to continue to implement what is necessary to balance the budget while sustaining the academic excellence that is the heart of our mission. It is important to emphasize that the $8 million in this phase of actions includes more than budget cuts. Modest enrollment increases and new fundraising initiatives are also being evaluated.

The Ad Hoc Financial Planning Group is on schedule to make detailed recommendations to the Board of Managers in December for the $8 million implementation, which will inform budget planning for 2010–2011. This set of recommendations would be implemented fully over the course of several years, thereby allowing us to continue to monitor our finances and the economy and make appropriate adjustments. At the December Board meeting, the Ad Hoc Financial Planning Group will also present the overall $15 million plan that would be put into action if the economy worsened. I want to assure you that we will monitor our assumptions and adjust our plans accordingly in order to both protect academic excellence and achieve economic sustainability."

CONCLUSION

In spite of the extraordinary financial conditions of the past year, Swarthmore had relatively good financial and investment performance and came through the crisis with its financial strength intact. Prudent investment policies protected the endowment on the downside, and the magnitude of the budget adjustment is expected to be manageable. The community is committed to working together to preserve excellence while solving the financial tasks ahead. Admissions and alumni giving statistics remained strong. Recognizing these features, the rating agencies reaffirmed their highest bond ratings for the College. Once budgetary plans are established for the next several years and long-term financial sustainability is achieved, the College is looking forward to broad-based planning for the next decade—to defining new priorities that will ensure Swarthmore's leadership in higher education in the future.

Suzanne P. Welsh

Suzanne P. Welsh
Vice President for
Finance and Treasurer

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

Swarthmore College is responsible for the preparation, integrity and fair presentation of its published financial statements. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, as such include judgments and estimates of management. Swarthmore College also prepared the other information included in the 2008–2009 Financial Report and is responsible for its accuracy and consistency with the financial statements.

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

Management believes that Swarthmore College maintained an effective internal control system over financial reporting, for the fiscal year ended June 30, 2009, and further, that the financial statements fairly represent the financial condition of the College as of June 30, 2009 and the operating results and cash flows for the year ended June 30, 2009.

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

PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300

Report of Independent Auditors

To the Board of Managers
of Swarthmore College:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Swarthmore College (the "College") at June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 3 to the consolidated financial statements, the College adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* in 2009.

PricewaterhouseCoopers LLP

September 21, 2009

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as of June 30, 2009 and 2008

(in thousands)

ASSETS	**2009**	**2008**
Cash and cash equivalents	$ 19,225	$ 24,603
Accounts receivable, net	957	716
Prepaid expenses and inventories	5,209	3,961
Accrued interest receivable	1,626	2,495
Contributions receivable	24,392	25,258
Student loans receivable, net	2,941	3,173
Employee mortgages receivable	15,550	15,279
Assets restricted to investment in property and equipment	11	10,391
Property and equipment, net	237,715	236,306
Investments, at market		
Endowment	1,128,675	1,412,609
Life income and annuity	40,292	46,524
Other	18,131	10,902
Total assets	**$ 1,494,724**	**$ 1,792,217**
LIABILITIES		
Accrued compensation	$ 6,734	$ 6,840
Payables and other accruals	8,371	10,098
Student deposits	1,708	1,816
Deferred payments and other liabilities	34,923	37,449
Refundable government loan funds	1,742	1,742
Bonds and notes payable	180,788	184,487
Total liabilities	**234,266**	**242,432**
NET ASSETS		
Unrestricted	$ 494,884	$ 569,159
Temporarily restricted	591,630	814,309
Permanently restricted	173,944	166,317
Total net assets	**1,260,458**	**1,549,785**
Total liabilities and net assets	**$ 1,494,724**	**$ 1,792,217**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2009

(in thousands)

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total 2009
Operating revenues:				
Student tuition and fees	$ 54,696	$	$	$ 54,696
Room and board	14,887			14,887
Less student aid	(21,826)			(21,826)
Net student tuition and fees	47,757	-	-	47,757
Revenues from investments				
Endowment spending distribution	54,568	2,569		57,137
Other	1,295			1,295
Private gifts and grants	6,878	2,180		9,058
Government grants	771	1,000		1,771
Other additions	6,635	928		7,563
Transfers among net asset classes	464	(464)		-
Net assets released from restrictions	6,747	(6,747)		-
Total operating revenue	**125,115**	**(534)**	**-**	**124,581**
Operating expenses:				
Instruction	45,108			45,108
Academic support	16,155			16,155
Student services	10,894			10,894
Institutional support	24,411			24,411
Auxiliary activities	21,241			21,241
Research and public service	4,075			4,075
Total operating expenses	**121,884**	**-**	**-**	**121,884**
Increase/(decrease) in net assets from operating activities	**3,231**	**(534)**	**-**	**2,697**
Nonoperating activities:				
Net realized and unrealized loss on investments, net of endowment spending	(79,388)	(223,611)		(302,999)
Private gifts and grants	271	430	5,782	6,483
Change in present value of life income funds		2,961		2,961
Maturities of annuity and life income funds	(79)	(270)	349	-
Other	284	1,058	189	1,531
Transfers among net asset classes	111	(1,418)	1,307	-
Net assets released from restrictions	1,295	(1,295)		-
Increase/(decrease) in net assets from nonoperating activities	**(77,506)**	**(222,145)**	**7,627**	**(292,024)**
Net increase/(decrease) in net assets for the year	**(74,275)**	**(222,679)**	**7,627**	**(289,327)**
Net Assets, June 30, 2008	**569,159**	**814,309**	**166,317**	**1,549,785**
Net Assets, June 30, 2009	**$ 494,884**	**$ 591,630**	**$ 173,944**	**$ 1,260,458**

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2008

(in thousands)

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

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended June 30, 2009 and 2008

(in thousands)

	2009	2008
Cash flows from operating activities		
Change in net assets	$ (289,327)	$ (29,852)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	6,907	6,525
Loss on extinguishment of debt	-	286
Amortization of bond premium	(695)	(345)
Gifts received for long-term investments	(6,484)	(14,210)
Net unrealized and realized (gains) and losses	251,809	21,888
Change in student loan reserve	(46)	(39)
Changes in operating assets and liabilities		
Change in accounts receivable, contributions receivable, accrued interest receivable, prepaid expenses and inventories	246	(5,957)
Change in student deposits, payables and accruals	(2,131)	(632)
Net cash used by operating activities	**(39,721)**	**(22,336)**
Cash flows from investing activities		
Payments for property and equipment	(8,126)	(14,930)
Increases in assets restricted to investment in property and equipment	(551)	(31,070)
Reductions in assets restricted to investment in property and equipment	10,931	44,074
Proceeds from sale of investments	1,041,225	648,144
Purchase of investments	(1,010,097)	(624,490)
Student loans and employee mortgages advanced	(1,368)	(2,172)
Payments on students loans and employee mortgages	1,376	1,080
Net cash provided by investing activities	**33,390**	**20,636**
Cash flows from financing activities		
Gifts received for long term investment	6,484	14,210
Change in deferred payments	(2,526)	2,620
Proceeds from bonds and notes payable	-	28,228
Payments on bonds and notes payable	(3,005)	(30,494)
Net cash provided by financing activities	**953**	**14,564**
Change in cash and cash equivalents	**(5,378)**	**12,864**
Cash and cash equivalents, beginning of year	24,603	11,739
Cash and cash equivalents, end of year	**$ 19,225**	**$ 24,603**
Non-cash capital expenditures in accounts payable	$ 190	$ 1,508

See accompanying notes to consolidated financial statements.

SWARTHMORE COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008
(dollars in thousands)

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

1. Summary of Significant Accounting and Reporting Policies

Reporting Entity

The consolidated financial statements of Swarthmore College include a wholly-owned, for-profit company, Marjay Productions, Inc., which was received as a bequest by a donor. The purposes of Marjay Productions, Inc. are to hold copyrights of the donor's works and receive royalties. Its financial operations are immaterial to Swarthmore College as a whole.

Basis of Presentation

The College's consolidated financial statements have been prepared in accordance with Statement of Financial Accounting Standards No. 117, "*Financial Statements of Not-for-Profit Organizations*" ("SFAS No. 117").

SFAS 117 requires that net assets, revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

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

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

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

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. Fund-raising expenses are not disclosed since they are not material.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash Equivalents

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

Investments

Effective June 1, 2008 the College adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements". SFAS 157 defines the term fair value, establishes a framework for measuring it within generally accepted accounting principles, and expands disclosures about its measurements. The new standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction, as prescribed by SFAS 157.

The standard also establishes 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. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities, 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 under SFAS 157 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, that may be used to measure fair value.

- Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I generally include listed equities and fixed income Treasury securities.
- 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 College's interests in private equity and real asset limited partnerships and other nonmarketable assets, such as commingled investment funds, are carried at estimated fair value as determined by the investment managers as of June 30, 2009 and 2008 and reviewed for reasonableness by the College.

Because private equity and real asset limited partnerships and other nonmarketable investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. The amount of gain or loss associated with these investments is reflected in the accompanying consolidated financial statement**.**

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds". The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and requires additional disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to UPMIFA. As of June 30, 2009, the Commonwealth of Pennsylvania had not enacted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) in any form. The impact of the FASB Staff Position 117-1 on the College's consolidated financial statements is limited to enhanced disclosure about the College's endowment funds.

Endowment Objectives for Investing and Spending

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 Board of Managers sets the level of distribution of endowment return annually. In fiscal years 2009 and 2008, the distribution of the endowment income exceeded the net yield (interest and dividends less fees) generated by endowment fund investments; therefore, $51,190 and $33,892, respectively, of net realized gains were allocated to the endowment spending distribution.

Net realized and unrealized gains on permanently restricted investments are included as either unrestricted or temporarily restricted revenues unless stipulated by the donor for perpetuity. Commonwealth of Pennsylvania law permits the College to define as income each year a portion of these net realized gains. The amount so designated when added to net yield (interest and dividends less fees) cannot exceed 7% of the average of the past three fiscal years' fair values of the permanently restricted assets. The difference between the endowment distribution and the total income is included in unrestricted net assets. Pursuant to this Commonwealth of Pennsylvania law and at the direction of the Board of Managers, $10,842 and $10,632 of net realized gains on endowments which have their earnings distributed for general purposes were included in unrestricted revenues in fiscal years 2009 and 2008, respectively.

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

Property and Equipment
Property and equipment is stated at cost less accumulated depreciation. Expenditures for new construction, major renovations and equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of buildings (60 years), improvements (15 years) and equipment (5 years). Depreciation is funded annually by internally designating funds for plant renewal and replacement. Amounts totaling $10,793 and $9,757 were so designated for the years ended June 30, 2009 and 2008, respectively.

Works of art, historical treasures and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations. All such items, whether contributed or purchased, have been capitalized. Works of art, historical treasures and similar assets are not subject to depreciation.

Contributions
Contributions and investment income with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted revenues. Contributions and investment income with donor-imposed restrictions that are not met in the same year as received or earned are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed restrictions are satisfied. Temporarily restricted revenues or net assets are recognized prior to utilizing unrestricted revenues or net assets. Contributions restricted for the acquisition of property and equipment are reported as an increase to temporarily restricted net assets within the nonoperating section of the consolidated statement of activities. These contributions are included in assets in the accompanying statement of financial position under the caption Assets restricted to investment in property and equipment until utilized for their intended purpose.

(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 risk-free rate in the period contributions are recognized.

Compensated Absences
Accrued compensation includes vacation time earned by hourly and staff employees, but not yet taken as of fiscal year-end. A staff employee is entitled to receive pay in lieu of vacation upon termination. Employees may accrue a maximum of 30 days of vacation. Accrued vacation payable amounted to $2,096 and $2,075 as of June 30, 2009 and 2008, respectively.

New Accounting Pronouncement
The provisions of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159) were effective July 1, 2008. SFAS No. 159 gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected would be reported within the consolidated statement of activities at each subsequent reporting date. The College did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

Subsequent Events
In May 2009, the FASB issued SFAS No. 165, Subsequent Events. This statement establishes standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Statement was effective for fiscal years ending after June 15, 2009, so it applied to the fiscal year ended June 30, 2009 for the College.

We evaluated the period from June 30, 2009, the date of the financial statements, through September 21, 2009, the date of the issuance of the financial statements for subsequent events.

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

2. Contributions Receivable

Contributions receivable at June 30, 2009 and 2008 were as follows:

Due in:	2009	2008
Less than one year	$8,573	$8,320
One to five years	10,648	11,523
More than five years	9,833	10,582
	29,054	30,425
Unamortized discount	(3,539)	(3,998)
Allowance for doubtful contributions	(1,123)	(1,169)
	$24,392	$25,258

(dollars in thousands)

3. Investments

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

Annuity, unitrust and life income funds periodically pay either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate at a designated time, usually upon the death of the last designated income beneficiary. The College's remainder interest is then available for use by the College as designated by either the donor or the Board of Managers. The actuarial liability for the charitable gift annuities is based on the present value of future payments discounted at rates that vary by participant from 2.8% to 11.6% and the 2000CM Mortality Table. The actuarial liability for the unitrusts is based on the present value of future payments discounted at rates that vary by trust from 5% to 9% and the Annuity 2000 Mortality Table.

Investment activity for fiscal years 2009 and 2008 was:

	Endowment and similar funds	Annuity and Life Income funds	Other	2009 Total	2008 Total
Investments, beginning of year	$ 1,412,609	$ 46,524	$ 10,902	$ 1,470,035	$ 1,515,577
Contributions	9,672	246		9,918	14,064
Maturities of annuity and life income funds		(1,226)		(1,226)	(661)
Other			299	299	(860)
Transfers in	5,606	62	6,960	12,628	14,259
Transfers out	(2,995)			(2,995)	(17,696)
	12,283	(918)	7,259	18,624	9,106
Interest and dividends	12,450	840		13,290	26,496
Unrealized and realized gains and (losses)	(246,490)	(5,289)	(30)	(251,809)	(21,888)
Investment management fees	(5,040)			(5,040)	(5,182)
	(239,080)	(4,449)	(30)	(243,559)	(574)
Payments to annuity and life income beneficiaries		(865)		(865)	(1,060)
Endowment spending distribution					
Unrestricted	(54,568)			(54,568)	(50,600)
Temporarily Restricted	(2,569)			(2,569)	(2,414)
	(57,137)	(865)	0	(58,002)	(54,074)
Investments, end of year	$ 1,128,675	$ 40,292	$ 18,131	$ 1,187,098	$ 1,470,035

(dollars in thousands)

Investments included in Level III primarily consist of the College's ownership in alternative investments (principally limited partnership interests and commingled funds in marketable alternatives, private equity, real estate, and other similar funds). The fair value (NAV) of the securities held by limited partnerships and commingled funds that do not have a readily determinable fair value are determined by the general partner or investment manager and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner or investment manager taking into consideration, among other things, the cost of the securities, prices of recent significant placement of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The College has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

A summary of investments, measured in fair value in accordance with the Fair Value Measurements standard of a reoccurring basis, as of June 30, 2009 is as follows:

	Level I	Level II	Level III	Total
Endowment				
Cash and Cash Equivalents	$ 17,342			$ 17,342
Fixed Income	113,146		$ 25,726	138,872
Public Equity	194,879	$ 181,720	105,348	481,947
Real Assets		16,084	64,322	80,406
Private Equity			222,074	222,074
Marketable Alternatives			188,035	188,035
Total Endowment	$ 325,367	$ 197,804	$ 605,505	$ 1,128,676
Life income	40,292			40,292
Other	15,864		2,266	18,130
Total Investments	$ 381,523	$ 197,804	$ 607,771	$ 1,187,098

Changes to the reported amounts of investments measured at fair value on a reoccurring basis using unobservable (Level III) inputs as of June 30, 2009 are as follows:

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

(dollars in thousands)

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, 2009 and 2008 respectively:

	Number of Units	Fair Value	Income Distribution
June 30, 2009	2,365,016	$478.25	$24.95
June 30, 2008	2,338,372	$605.40	$23.21

4. Property and Equipment

Property and equipment at June 30, 2009 and 2008 consisted of the following:

	2009	2008
Land	$4,973	$4,973
Buildings and improvements	303,173	295,643
Equipment	16,537	15,845
Works of art, historical treasures and similar assets	4,432	4,406
	329,115	320,867
Accumulated depreciation	(91,400)	(84,561)
	$237,715	$236,306

Interest payments totaling $49 and $70 were capitalized in 2009 and 2008, respectively.

5. Deferred Payments and Other Liabilities

Deferred payments and other liabilities at June 30, 2009 and 2008 consisted of the present value of future payments due to or on behalf of employees and former employees under retirement programs and donors under annuity and life income programs, the conditional asset retirement obligation and conditional gifts.

	2009	2008
Employees and former employees	$13,739	$13,322
Conditional gift liability	10,000	10,000
Donors	10,250	13,211
Conditional asset retirement obligation	934	916
	$34,923	$37,449

(dollars in thousands)

6. Bonds and Notes Payable

Bonds and notes payable at June 30, 2009 and 2008 were:

	2009		2008	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Swarthmore Borough Authority				
1998 Revenue Bonds	$16,617	$16,110	$17,651	$17,285
2001 Revenue Bonds	29,439	28,607	29,482	28,553
2002 Revenue Bonds	29,839	28,610	30,999	30,587
2006A Revenue Bonds	75,813	79,149	75,080	79,312
2008 Revenue Bonds	28,682	27,427	27,308	27,855
Other notes payable	885	885	895	895
Total bonds and notes payable	$181,275	$180,788	$181,415	$184,487

The College bond rating was Aaa/AAA for the years ended June 30, 2009 and 2008.

On April 30, 2008, the College issued $25,360 aggregate principal amount of 2008 Revenue Bonds (2008 Bonds) through the Swarthmore Borough Authority (the Authority) at a premium. The proceeds were used to refund the 2006B variable auction rates notes (2006B Bonds), par value of $27,600, and to fund the costs of issuing the 2008 Bonds. The 2008 Bonds have an interest rate of 5.0% (priced to yield 2.95%) and mature on September 15, 2013. Interest is payable semi-annually.

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

On July 15, 2002, the College issued $37,650 aggregate principal amount of 2002 Revenue Bonds (2002 Bonds) through the Authority to refund the 1992 Revenue Bonds in order to take advantage of a lower interest rate. The 2002 Revenue Bonds have interest rates from 3.37% to 5.25% depending upon the maturity dates, which range from 2009 to 2020 in annual amounts ranging from $1,880 to $2,950. Interest is payable semi-annually. The 2002 Bonds maturing through September 15, 2012 are not subject to optional redemption prior to maturity. The 2002 Bonds maturing on or after September 15, 2012 are subject to redemption prior to maturity at the option of the Authority, upon the direction of the College, in whole at any time, or in part from time to time at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to the redemption date.

On July 11, 2001, the College issued $93,290 aggregate principal amount of 2001 Revenue Bonds (2001 Bonds) through the Authority at a premium. The net proceeds of the 2001 Bonds were used to construct a new science center, a residence hall, various other renovations and capital improvements to the facilities of the College and architectural and engineering studies related to the planning of additional capital projects for the College.

(dollars in thousands)

On December 20, 2006, $63,970 of 4.4% and 5.5% term bonds due September 15, 2011 (priced to yield 4.46%) were advance refunded using proceeds from the 2006A Revenue Bonds. The 2001 Revenue Bonds which remain outstanding are comprised of $29,320 of 5.00% term bonds due September 15, 2031 (priced to yield 5.27%) with interest payable semi-annually of $1,466 from 2007 through 2030 with a final payment of $30,053 due in 2031.

On July 1, 1998, the College issued $34,960 of 1998 Revenue Bonds through the Authority. The proceeds were used for the refunding of the 1988 Revenue Bonds of $6,530, the advance refunding of $8,770 of 1992 Revenue Bonds, $18,088 to finance the costs of renovation and other capital improvements to various College facilities and the remainder to pay a portion of the costs of issuing the 1998 Revenue Bonds.

On December 20, 2006, $10,375 of the 1998 Revenue Bonds with maturity dates between 2014 and 2028 and interest rates of 5.0% were advance refunded using proceeds from the 2006A Revenue Bonds. The 1998 Revenue Bonds which remain outstanding have interest rates ranging from 4.65% to 5.25% depending upon the maturity dates that range from 2009 to 2028 in amounts ranging from $415 to $1,495. The 1998 Revenue Bonds are collateralized by a pledge of all unrestricted College revenues. The 1998 Revenue Bonds maturing on or after September 15, 2018 are subject to redemption at the option of the College on or after September 15, 2008 at a redemption price of 100%.

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

	Principal	Interest	Total
2009-2010	$3,130	$8,492	$11,622
2010-2011	3,275	8,349	11,624
2011-2012	3,431	8,187	11,618
2012-2013	3,601	8,016	11,617
2013-2014	29,141	7,205	36,346

Interest paid on bonds and notes payable was $8,457 and $8,391 for the years ended June 30, 2009 and 2008, respectively.

7. Retirement Benefits

Retirement benefits for all eligible employees of the College are individually funded and vested under a defined contribution program with Teachers Insurance and Annuity Association of America (TIAA), Vanguard Group of Investment Companies or Calvert Group. Under this arrangement, the College makes monthly contributions as defined in the Plan to the accounts of all employees. The College's contributions under this Plan are included in operating expenses and were $4,595 in 2009 and $4,347 in 2008.

During fiscal year 2003 the College initiated a 457 non-qualified deferred compensation plan for senior management employees. The deferred compensation is invested with the Teachers Insurance and Annuity Association of America (TIAA) or the Vanguard Group of Investment Companies and is considered College property until the employee withdraws the funds due to emergency, termination or retirement. The participants’ contributions are subject to the general creditors of the College, so the invested asset is offset by a corresponding liability in the amounts of $439 and $479 at June 30, 2009 and 2008 respectively. The College does not record transaction activity as revenue or expense. The fund’s investments are reported at fair value.

(dollars in thousands)

8. Net assets

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
True Endowment		$706,905	$144,568	$ 851,473
Term Endowment		76,148		76,148
Quasi Endowment	$484,988			484,988
Annuity and life income	7,994	22,023	2,817	32,834
Student loans	1,778			1,778
Property and equipment				
Unexpended	(508)	769		261
Net investment in property and equipment	62,476			62,476
Other purposes	12,431	8,464	18,932	39,827
	$569,159	$814,309	$166,317	$1,549,785

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 at June 30, 2009 is less than the level required by donor stipulations is $5,356.

(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, 2007	$ 477,235	$ 827,413	$ 136,584	$ 1,441,232
Contributions	1,733	4,837	5,416	11,986
Transfers	5,645	3,176	2,553	11,374
Interest and dividends	25,478		15	25,493
Unrealized and realized gains (losses)	30,669	(49,959)		(19,290)
Investment management fees	(5,172)			(5,172)
Endowment spending distribution	(50,600)	(2,414)		(53,014)
Endowment total, June 30, 2008	$ 484,988	$ 783,053	$ 144,568	$ 1,412,609
Contributions	4,156	500	5,016	9,672
Transfers	(1,475)	1,947	2,139	2,611
Interest and dividends	12,418		32	12,450
Unrealized and realized gains (losses)	(26,184)	(220,306)		(246,490)
Investment management fees	(5,040)			(5,040)
Endowment spending distribution	(54,568)	(2,569)		(57,137)
Endowment total, June 30, 2009	$ 414,295	$ 562,625	$ 151,755	$ 1,128,675

9. Expenses by Natural Classification

Expenses for the years ended June 30, 2009 and 2008 were incurred for the following:

	2009	2008
Compensation		
Faculty	$31,072	$29,060
Staff	38,753	37,996
Student	1,259	1,170
Amortization	154	193
Life income payments and other adjustments	2,098	2,242
Bookstore merchandise for resale	730	760
Dining services food	1,830	1,763
Equipment	3,259	3,479
Foreign study program expenses	2,231	2,527
Insurance	817	726
Interest	8,021	8,366
Library materials	2,064	2,118
Services, supplies and other	15,908	14,484
Real estate taxes	925	855
Travel	3,174	2,854
Telephone	68	85
Utilities	2,614	3,001
Depreciation	6,907	6,525
	$121,884	$118,204

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.

Effective July 1, 2007, the College adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). No adjustments to the financial statements were required as a result of the adoption of FIN 48. 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, 2009 and 2008, the College had outstanding capital commitments to limited partnerships of $248,468 and $235,901, respectively.

As of June 30, 2009 and 2008, the College had outstanding commitments for construction contracts of $2,423 and $4,955, respectively.

CORPORATION AND BOARD OF MANAGERS

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Suzanne P. Welsh, *Treasurer*
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Janet Smith Dickerson H’01
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Bruce Jay Gould ’54
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Current Term Expires June 2011
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Stephen Bayer, *Vice President for Development and Alumni Relations*
James L. Bock III ’90, *Dean of Admissions and Financial Aid*
Maurice G. Eldridge ’61, *Vice President for College and Community Relations and Executive Assistant to the President*
C. Stuart Hain, *Vice President for Facilities and Services*
Constance Hungerford, *Provost*
James Larimore, *Dean of Students*
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