Financial Statements and Report of
Independent Certified Public Accountants

Lafayette College

June 30, 2013 and 2012

Contents

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Report of Independent Certified Public Accountants

Board of Trustees
Lafayette College

Report on the financial statements

We have audited the accompanying financial statements of Lafayette College (the College), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 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 these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Lafayette College as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 7, 2013

Lafayette College

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2013	2012
Cash and cash equivalents	$ 62,307,803	$ 46,235,894
Short-term investments	1,554,716	1,965,619
Accounts and notes receivable, net	1,358,300	1,729,940
Inventories	634,403	657,972
Contributions receivable and bequests, net	12,813,437	10,389,670
Prepaid expenses	1,329,101	3,298,724
Student loans receivable, net	4,143,702	4,418,829
Deposits with bond and other trustees	4,406,570	12,140,270
Long-term investments	722,972,309	668,996,860
Deferred charges, net	1,197,934	1,295,327
Land, buildings and equipment, net of accumulated depreciation	255,929,229	255,744,187
Total assets	$ 1,068,647,504	$ 1,006,873,292
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 4,073,930	$ 3,980,833
Accrued liabilities	6,438,544	5,767,300
Deposits and deferred revenues	6,767,295	7,845,543
Annuities payable	19,982,924	20,630,775
Postretirement benefits	45,446,000	46,459,000
Federal student loans refundable	2,040,610	2,024,586
Interest rate hedge/swap agreements	14,406,026	20,200,719
Conditional asset retirement obligation	1,560,618	1,576,032
Capitalized lease obligations	3,274,211	2,866,661
Bonds payable, net	169,874,011	170,331,308
Total liabilities	273,864,169	281,682,757
Net assets		
Unrestricted	167,292,291	143,506,891
Unrestricted - invested in plant	78,871,716	80,101,250
Total unrestricted	246,164,007	223,608,141
Temporarily restricted - other funds	8,418,353	5,989,669
Temporarily restricted - endowment and annuity/life income funds	255,237,919	230,330,627
Total temporarily restricted	263,656,272	236,320,296
Permanently restricted	284,963,056	265,262,098
Total net assets	794,783,335	725,190,535
Total liabilities and net assets	$ 1,068,647,504	$ 1,006,873,292

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENT OF ACTIVITIES

Year ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Student related revenue:				
Tuition and fees	$ 104,906,204	$ -	$ -	$ 104,906,204
Sales and services of auxiliaries	27,761,914	-	-	27,761,914
	132,668,118	-	-	132,668,118
Scholarships and fellowships	(36,679,718)	-	-	(36,679,718)
Net student related revenue	95,988,400	-	-	95,988,400
Other revenue				
Government grants	1,778,196	-	-	1,778,196
Private gifts and grants	8,282,926	1,303,999	-	9,586,925
Investment return for operations:				
Endowment return used for spending policy	29,442,597	179,998	-	29,622,595
Other investment return	1,448,000	-	-	1,448,000
Other	3,672,678	6,144	-	3,678,822
Net assets released from restriction	372,464	(372,464)	-	-
Total operating revenue	140,985,261	1,117,677	-	142,102,938
Operating expenses				
Instruction	52,222,186	-	-	52,222,186
Public service	200	-	-	200
Research	1,790,363	-	-	1,790,363
Academic support	17,521,698	-	-	17,521,698
Student services	27,959,407	-	-	27,959,407
Institutional support	21,879,766	-	-	21,879,766
Scholarships and fellowships	128,571	-	-	128,571
Auxiliary services	21,918,035	-	-	21,918,035
Total operating expenses	143,420,226	-	-	143,420,226
(Decrease) increase in net assets from operating activities	(2,434,965)	1,117,677	-	(1,317,288)
Nonoperating activities				
Nonoperating investment return:				
Investment return, net of amounts withdrawn for operations and endowment funds with deficiencies	15,427,326	28,515,200	9,315,733	53,258,259
Endowment funds with deficiencies	1,111,309	(1,101,825)	(9,484)	-
Capital gifts	1,538,126	3,398,638	7,222,538	12,159,302
Redesignation of net assets	411,832	(2,481,576)	2,069,744	-
Change in estimate for annuities payable	(468,657)	17,997	1,324,645	873,985
Matured annuity funds	(445,911)	(355,481)	801,392	-
Distribution to fund annuities payable	(41,174)	(692,520)	(911,570)	(1,645,264)
Change in fair value of interest rate hedge / swap agreements	5,794,693	-	-	5,794,693
Provision for bad debt on contributions receivable	(25,111)	(110,740)	(112,040)	(247,891)
Change in postretirement benefits cost	2,461,000	-	-	2,461,000
Voluntary retirement incentive plan	(1,746,900)	-	-	(1,746,900)
Gain on disposal of property, plant and equipment	2,904	-	-	2,904
Net assets released from restriction	971,394	(971,394)	-	-
Increase in net assets from nonoperating activities	24,990,831	26,218,299	19,700,958	70,910,088
Net increase in net assets for the year	22,555,866	27,335,976	19,700,958	69,592,800
Net assets				
Beginning of year	223,608,141	236,320,296	265,262,098	725,190,535
End of year	$ 246,164,007	$ 263,656,272	$ 284,963,056	$ 794,783,335

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Student related revenue:				
Tuition and fees	$ 100,454,016	$ -	$ -	$ 100,454,016
Sales and services of auxiliaries	27,339,889	-	-	27,339,889
	127,793,905	-	-	127,793,905
Scholarships and fellowships	(35,788,400)	-	-	(35,788,400)
Net student related revenue	92,005,505	-	-	92,005,505
Other revenue				
Government grants	434,293	132,892	-	567,185
Private gifts and grants	7,358,241	713,219	-	8,071,460
Investment return for operations:				
Endowment return used for spending policy	28,679,832	281,515	-	28,961,347
Other investment return	1,485,134	3,092	-	1,488,226
Other	3,397,649	10,003	-	3,407,652
Net assets released from restriction	1,016,148	(1,016,148)	-	-
Total operating revenue	134,376,802	124,573	-	134,501,375
Operating expenses				
Instruction	49,510,460	-	-	49,510,460
Public service	2,000	-	-	2,000
Research	643,489	-	-	643,489
Academic support	16,335,290	-	-	16,335,290
Student services	26,932,610	-	-	26,932,610
Institutional support	20,862,093	-	-	20,862,093
Scholarships and fellowships	183,103	-	-	183,103
Auxiliary services	21,941,581	-	-	21,941,581
Total operating expenses	136,410,626	-	-	136,410,626
(Decrease) increase in net assets from operating activities	(2,033,824)	124,573	-	(1,909,251)
Nonoperating activities				
Nonoperating investment return:				
Investment return, net of amounts withdrawn for operations and endowment funds with deficiencies	(7,390,289)	(14,107,330)	(3,417,403)	(24,915,022)
Endowment funds with deficiencies	(447,000)	583,000	(136,000)	-
Capital gifts	4,802,938	4,799,084	7,076,562	16,678,584
Redesignation of net assets	(100,319)	(871,478)	971,797	-
Change in estimate for annuities payable	6,325	972,594	(1,071,809)	(92,890)
Matured annuity funds	34,542	(408,993)	374,451	-
Distribution to fund annuities payable	-	(651,510)	(1,236,337)	(1,887,847)
Change in fair value of interest rate hedge/swap agreements	(8,557,684)	-	-	(8,557,684)
Recovery/(provision) for bad debt on contributions receivable	569,789	62,055	(134,840)	497,004
Change in postretirement benefits cost	(8,074,000)	-	-	(8,074,000)
Voluntary retirement incentive plan	(1,283,047)	-	-	(1,283,047)
Gain on disposal of property, plant and equipment	89,426	-	-	89,426
Change in conditional asset retirement obligation	3,670,215	-	-	3,670,215
Other (loss) income	-	(53,753)	7,998	(45,755)
Net assets released from restriction	4,005,410	(4,005,410)	-	-
(Decrease) increase in net assets from nonoperating activities	(12,673,694)	(13,681,741)	2,434,419	(23,921,016)
Net (decrease) increase in net assets for the year	(14,707,518)	(13,557,168)	2,434,419	(25,830,267)
Net assets				
Beginning of year	238,315,659	249,877,464	262,827,679	751,020,802
End of year	$ 223,608,141	$ 236,320,296	$ 265,262,098	$ 725,190,535

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 69,592,800	$ (25,830,267)
Reconciliation of change in net assets to net cash used in operating activities		
Depreciation and amortization	13,560,715	13,273,131
Net realized and unrealized (gain) loss on investments	(74,796,221)	4,413,111
Nonoperating (gain) loss on interest rate hedge/swap agreements	(5,794,693)	8,557,684
Nonoperating gain on conditional asset retirement obligation	-	(3,670,215)
Nonoperating (gain) loss on adjustment for experience of postretirement benefits cost	(1,013,000)	9,543,000
Nonoperating gain on land, building and equipment disposals	(2,904)	(67,330)
Nonoperating contributions for endowment and annuities	(7,919,156)	(16,585,694)
Changes in assets and liabilities:		
Decrease in short-term investments	410,903	1,344,665
Decrease (increase) in accounts and notes receivable, net	371,640	(927,196)
Decrease (increase) in inventories	23,569	(10,752)
(Increase) decrease in contributions receivable and bequests in probate	(2,423,767)	893,730
Decrease (increase) in prepaid expenses	1,969,623	(1,739,599)
Decrease in deferred charges	97,393	156,832
Increase in accounts payable, accrued liabilities and annuities payable	116,490	2,719,469
Decrease in deposits and deferred revenues	(1,078,248)	(376,730)
Net cash used in operating activities	(6,884,856)	(8,306,161)
Cash flows from investing activities		
Purchases of land, building and equipment, net of change in construction costs payable	(13,758,267)	(15,321,056)
Student loans issued	(478,494)	(519,661)
Student loans repaid, net	753,621	394,915
Purchases of investments	(127,049,595)	(104,761,898)
Proceeds from sales and maturities of investments	147,870,367	95,988,624
Net cash provided by (used in) investing activities	7,337,632	(24,219,076)
Cash flows from financing activities		
Proceeds from issuance of debt	524,313	2,923,402
Repayment of principal of debt	(574,060)	(318,429)
Increase in federal student loans refundable	16,024	17,673
Contributions for investment in endowment and annuities	7,919,156	16,585,694
Change in deposits with bond and other trustees	7,733,700	(5,766,592)
Net cash provided by financing activities	15,619,133	13,441,748
Change in cash and cash equivalents	16,071,909	(19,083,489)
Cash and cash equivalents, beginning of year	46,235,894	65,319,383
Cash and cash equivalents, end of year	$ 62,307,803	$ 46,235,894
Supplemental cash flow data		
Noncash transactions:		
Amounts included in accounts payable for purchase of land, buildings and equipment	$ 1,173,827	$ 645,947
Capital lease obligations	24,313	84,559
Cash paid during the year for interest	7,226,371	7,366,258

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

Lafayette College (the College), located in Easton, Pennsylvania, is an independent coeducational institution offering undergraduate bachelor of arts, science and engineering degrees. The College had an average enrollment of 2,413 and 2,399 full-time students, of which approximately 90% lived on campus for the years ended June 30, 2013 and 2012, respectively.

The financial statements of the College have been prepared on the accrual basis of accounting.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- Unrestricted - Net assets that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

- Temporarily restricted - Net assets resulting from contributions and other inflows whose use by the College is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the College.

- Permanently restricted - Net assets resulting from contributions and other inflows whose use by the College is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the College.

Expenses are reported as decreases in unrestricted net assets. Net assets with donor-imposed restrictions that have expired or were fulfilled by the College in the same year as received are recorded as unrestricted revenues. Net assets with donor-imposed restrictions that have expired or were fulfilled by the College are first expended from temporarily restricted 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.

Contributions and investment return are classified as temporarily restricted if the purpose of the contribution has yet to be specified by the donor. Contributions restricted for the acquisition of land, buildings and equipment are classified as temporarily restricted and are released from their restriction upon acquisition of the designated asset.

2. Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Accounts and Notes Receivable

Accounts and notes receivable are reported net of allowance for doubtful accounts. The allowance for doubtful accounts was $1,023,000 and $984,000 at June 30, 2013 and 2012, respectively.

4. Inventories

Inventories primarily consist of books and other supplies and are stated at the lower of cost (first-in, first-out method) or market.

5. Contributions Receivable and Bequests

Contributions receivable and bequests, net are shown below as of June 30, 2013:

	Contributions	Bequests	Total
Expected to be collected in:			
Less than one year	$ 3,627,472	$ 3,169,576	$ 6,797,048
One year to five years	7,048,664	156,220	7,204,884
	10,676,136	3,325,796	14,001,932
Less: Discount (Average of 1.10%)	(280,943)	(37,527)	(318,470)
Less: Allowance for uncollectible contributions receivable	(537,445)	(332,580)	(870,025)
Contributions receivable and bequests, net	$ 9,857,748	$ 2,955,689	$ 12,813,437

At June 30, 2013, the College had also received conditional promises to give of approximately $7,180,000. These conditional promises to give are not recognized until they become unconditional, that is, when the condition on which they depend is substantially met.

6. Student Loans Receivable

Student loans receivable are reported net of allowance for doubtful loans. The allowance for doubtful loans was $941,000 and $781,000 at June 30, 2013 and 2012, respectively. The allowance is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers still in school or in the grace period following graduation), that may not be collected.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Deposits with Bond and Other Trustees

Deposits with bond and other trustees represent funds held by designated bond trustees for future application by the College to approved capital projects and the collateral obligation to the counterparty under the College's various interest rate hedge/swap agreements as described in Note E. At June 30, 2013 and 2012 the amounts of $-0- and $1,939,551, respectively, were held for capital projects, and the cash collateral obligation to the counterparty was $4,406,570 and $10,200,719, respectively.

8. Investments

Refer to Note C - Investments for the College's investment reporting policy.

9. Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

	Years
Building acquisition and new construction	40
Building improvements	25
Library books	10
Equipment	5-10
Vehicles	5

Works of art, historical treasures and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations at the date of acquisition or donation. Works of art, historical treasures and similar assets are not depreciated. The aggregate carrying value of such assets at June 30, 2013 and 2012 is $2,870,829 and $2,794,034, respectively.

10. Deposits and Deferred Revenues

Deposits and deferred revenues relate to tuition and matriculation deposits and other payments for the upcoming fall semester that are received prior to year-end.

11. Annuities Payable

The College has entered into various types of split-interest agreements, including charitable gift annuities, charitable remainder trusts and pooled life income funds.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue is recognized pursuant to these split-interest agreements based on the fair value of the assets contributed less a liability for the present value of the payments expected to be made to the beneficiaries. Each year, the College re-evaluates the expected future payments to beneficiaries based on changes in life expectancy and other actuarial assumptions and discloses the changes in value of the agreements as a non-operating item on the statements of activities. At June 30, 2013 and 2012, the liability associated with split-interest agreements was $19,982,924 and $20,630,775, respectively, and is recorded as annuities payable in the statements of financial position.

At June 30, 2013 and 2012, the fair value of such assets for split-interest agreements was $40,610,997 and $41,603,440, respectively, and is recorded, as applicable, in cash and cash equivalents and long-term investments in the statements of financial position.

12. Federal Student Loans Refundable

Funds provided by the United States Government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the government and are reported as a long-term liability. Also see Note I.

13. Interest Rate Hedge/Swap Agreements

Interest rate hedge/swap agreements are recognized as either long-term assets or long-term liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value. The College's management prepares its budgets assuming the net payments to the counterparty are similar to the cost of the net debt if it were a fixed rate transaction at the swap rate. Accordingly, the College has elected to report the net payments to/net receipts from the counterparty under these agreements as operating interest expense, similar to interest on long-term debt. Also see Note E.

14. Conditional Asset Retirement Obligation

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. During the 2011-12 fiscal year, the College completed an external, comprehensive review of the estimated conditional asset retirement costs for its facilities. The liability for conditional asset retirement obligation was $1,560,618 and $1,576,032 as of June 30, 2013 and 2012, respectively. Of these amounts, $74,315 was for accretion of interest and $-0- of new liabilities related to conditional asset retirement obligations were recognized during the year ended June 30, 2013. In comparison, $75,049 was for accretion of interest and $-0- of new liabilities related to conditional asset retirement obligations were recognized during the year ended June 30, 2012.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

15. Net Student Related Revenue

Net student related revenues are reported net of institutional scholarships and fellowships.

16. Operations

The accompanying statements of activities distinguish between operating and nonoperating activities. Operating activities primarily include all revenues and expenses that are an integral part of the College's educational programs and supporting activities. Nonoperating activities primarily include investment return, net of endowment return used for spending policy, capital gifts, changes in annuities payable, change in the value of interest rate hedge/swap agreements, allowance for uncollectible nonoperating pledges receivable, nonoperating adjustments to the postretirement benefit liability, charges for voluntary retirement incentive programs, and other activities considered by management to be more of a nonoperating nature.

17. Functional Expenses

Operation and maintenance expenses, depreciation of plant assets and interest on long-term debt are allocated to program and supporting activities based upon the primary use of the facilities.

18. Voluntary Retirement Programs Expenses

During the year ended June 30, 2012, the College initiated two voluntary retirement programs for current employees: one program for non-faculty and one program for faculty. To qualify, the employee needed to have achieved a certain age and certain number of years of full-time employment at the College. The programs have limited time periods in which the employee may elect to enroll and a limited window or set of windows in which to select his or her retirement date. The College has accrued costs of $2,413,000 within its accrued liabilities at June 30, 2013 for the payouts or estimated payouts for employees who submitted their letter of intent on or before June 30, 2013. Due to constraints related to eligibility, the time limitations permitted to participate and retire and the anticipated closure of these specific programs at the conclusion thereof, the College has treated these payout costs as a non-operating expense.

19. Income and Real Estate Taxes

The College has been granted tax exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, files federal tax Form 990 (Return of Organization Exempt from Income Tax) annually. The College also files federal tax Form 990-T (Exempt Organizations Business Income Tax Return) on net income of unrelated business activities. Within accrued liabilities, the College estimates an income tax liability of $250,000 for the Form 990-T for the year ended June 30, 2013, of which $25,480 has been prepaid as of June 30, 2013. The College's federal and state income taxes for the year ended June 30, 2012 totaled $(34,480) as a result of the application of prior year losses that were eligible to be carried forward.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A tax position is recognized or derecognized by the College based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The College does not believe its financial statements include uncertain tax positions.

20. Advertising

The College expenses the costs of advertising as incurred. Advertising expense was approximately $145,400 and $136,400 for the years ended June 30, 2013 and 2012, respectively.

21. Redesignation of Net Assets to Temporarily Restricted or Permanently Restricted

Redesignations of net assets result from donors either imposing restrictions on previously unrestricted contributions or modifying the restrictions on previously restricted contributions.

22. Estimates by Management

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts for accounts and notes receivable, student loans receivable and contributions receivable and bequests; valuation of investments without a readily determinable market value; useful lives of fixed assets; conditional asset retirement obligations; actuarial estimates for the College's postretirement health plan and annuities payable; and the reported fair values of certain of the College's assets and liabilities. Actual results could differ from those estimates.

23. Concentrations of Credit Risk

The College's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments and deposits with bond and other trustees. These funds are held in various high-quality financial institutions managed by College personnel and outside advisors. The College maintains its cash and cash equivalents in financial institutions that typically, significantly exceed federally insured limits. The College believes that the concentrations of credit risk are reasonable for its cash and cash equivalents, investments and deposits with bond and other trustees.

24. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no impact on total assets, total liabilities or net assets.

NOTE B - LAND, BUILDINGS AND EQUIPMENT

Investment in land, buildings and equipment consists of the following at June 30:

	2013	2012
Land	$ 4,153,852	$ 4,091,752
Buildings	328,367,974	323,263,750
Equipment	48,904,166	47,020,412
Library books	27,009,666	25,588,014
Vehicles	1,919,195	1,827,134
Works of art	2,870,829	2,794,035
Improvements	47,505,593	38,989,570
Other	80,000	-
Construction in progress	3,698,318	6,726,040
	464,509,593	450,300,707
Less accumulated depreciation	(208,580,364)	(194,556,520)
	$ 255,929,229	$ 255,744,187

Depreciation expense for the years ended June 30, 2013 and 2012 was $13,576,129 and $13,322,710, respectively.

Estimated outstanding construction contract commitments at June 30, 2013 were $13,184,000.

NOTE C - INVESTMENTS

Investments are stated at fair value based on quoted market prices, except for alternative investments which are stated at their estimated fair value.

Short-term investments primarily include certificates of deposits and securities with maturities of up to one year at the time of purchase. The cost and fair value of short-term securities at June 30, 2013 and 2012 is $1,554,716 and $1,965,619, respectively.

(Continued)

NOTE C - INVESTMENTS - Continued

Long-term investments by type consist of the following as of June 30:

	2013		2012	
	Fair value	Cost	Fair value	Cost
Fixed income				
Investments	$ 8,311,982	$ 7,745,351	$ 117,410	$ 111,999
Mutual funds	8,748,049	5,293,628	18,839,438	15,598,328
Institutional mutual funds	49,439,126	59,764,950	68,241,081	75,641,644
Total fixed income	66,499,157	72,803,929	87,197,929	91,351,971
Equity				
Stocks	82,790,930	61,328,074	62,773,623	54,689,323
Mutual funds	149,293,263	131,972,336	114,722,507	104,531,188
Institutional mutual funds	113,705,067	84,736,222	65,828,143	58,236,222
Total equity	345,789,260	278,036,632	243,324,273	217,456,733
Alternative investments				
Event driven/distressed	20,937,202	7,682,985	41,220,076	15,272,057
Derivatives	10,472,916	10,000,000	10,910,925	10,000,000
Long/short equity	32,030,593	25,000,000	61,292,879	52,635,828
Multi-strategy/absolute return	108,042,493	60,195,768	105,843,983	68,139,464
Opportunistic fixed income	55,145,561	50,750,000	36,282,969	21,239,445
Real estate	24,187,980	29,129,250	28,813,919	32,616,656
Private equity	59,867,147	48,934,682	54,109,907	49,786,594
Total alternative investments	310,683,892	231,692,685	338,474,658	249,690,044
Total long-term investments	$ 722,972,309	$ 582,533,246	$ 668,996,860	$ 558,498,748

The estimated fair value of investments is based on quoted market prices, except for certain institutional equity funds, institutional fixed income funds, and alternative investments for which quoted market prices are not available. The estimated fair value of certain institutional equity funds, institutional fixed income funds, and alternative investments, such as hedge funds, private equity, real estate, and other investments, have been calculated using the net asset value per share provided by external investment managers. Because certain alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a market for such investments existed. These instruments may contain elements of both credit risk and market risk. Such risks include, but are not limited to: limited liquidity, dependence upon key individuals, emphasis on speculative investments, nondisclosure of portfolio composition, and absence of oversight.

(Continued)

NOTE C - INVESTMENTS - Continued

The principal aim of the College's alternative investment selection is to reduce certain components of volatility in its investment program consistent with the goal of generating absolute return. The College manages this investment exposure through a process that includes reviewing experienced external fund managers, conducting initial due diligence, continuing periodic diligence and monitoring (including on-site visitations), limiting exposure to any investment strategy or manager, and employing outside experts. At June 30, 2013, the largest alternative investment exposure to any product was 6.6% of total long-term investments, which reflected a diversified portfolio of various strategies, including distressed, merger arbitrage, special situations, and convertible hedging.

Within the category of securities classified as alternative investments, a majority of the underlying investments were publicly traded stocks, debt instruments, preferred securities, and other instruments for which market quotes are readily available. The investments have been classified as alternative investments since investment managers employed by the College to manage said investments are not registered pursuant to the Investment Company Act of 1940.

The alternative investments that are not readily marketable are carried at estimated fair values based on the net asset value as provided by the investment managers. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions (e.g. third-party price verifications) used in determining the fair value of the alternative investments. The College requests, receives and reviews the audited financial statements from all investment managers.

In managing the College's overall investment strategy, an important consideration is the provision of sufficient liquidity. While the College's relationships with its external investment managers across the total portfolio vary in terms of exit provisions, a high percentage of the agreements permit ready access, and underlying assets are generally liquid and readily marketable as of June 30, 2013 as shown below:

Expected liquidity availability	Non-alternative investments	Alternative investments	Total
Daily	$ 290,876,277	$ 10,472,916	$ 301,349,193
Within 30 days	93,390,861	-	93,390,861
31-90 days	24,484,748	120,177,766	144,662,514
91-365 days	-	73,132,924	73,132,924
More than 365 days	3,536,531	106,900,286	110,436,817
Total	$ 412,288,417	$ 310,683,892	$ 722,972,309

(Continued)

NOTE C - INVESTMENTS - Continued

Under the terms of certain limited partnership agreements, the College is obligated to periodically advance additional funding or capital calls. At June 30, 2013 and 2012, the College made commitments of approximately $122,500,000 and $107,500,000, respectively, to provide funding to limited partnerships. At June 30, 2013 and 2012, advances of $93,480,188 and $94,284,355, respectively, had been satisfied and included in the long-term investments in the statements of financial position, leaving balances of $29,019,812 and $13,215,645, respectively, to be advanced.

The components of total investment return from all sources are reflected below for the years ended June 30:

	2013	2012
Interest income and dividends	$ 9,532,633	$ 9,947,662
Realized gains, net	44,878,273	21,124,626
Change in unrealized gains, net	29,917,948	(25,537,737)
	$ 84,328,854	$ 5,534,551

NOTE D - ENDOWMENTS

The College's endowment consists of a portfolio of actively monitored funds established to provide both a source of operating funds as well as long-term financial stability.

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment includes donor-restricted endowment funds and endowment funds designated by the Board of Trustees to function as quasi-endowments, plus pledges receivable designated for the endowment, permanently restricted loan funds, and the net assets of the deferred giving program (investment market value less annuities payable) which are primarily designated for the endowment at maturity.

1. Interpretation of Relevant Law

While other interpretations of Commonwealth of Pennsylvania Act 141 (Act 141) are possible, the Board of Trustees of the College has interpreted Act 141 to be consistent with preserving the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the College's spending policy. Other interpretations of Act 141 are possible.

(Continued)

NOTE D - ENDOWMENTS - Continued

2. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature are reported by a charge to unrestricted net assets, and a corresponding increase to either permanently restricted net assets or temporarily restricted net assets as appropriate. As of June 30, 2013, the cumulative charge to unrestricted net assets for the deficiencies was $831,691, with corresponding cumulative credits to permanently restricted net assets and temporarily restricted net assets of $45,516 and $786,175, respectively. As of June 30, 2012, the cumulative charge to unrestricted net assets for the deficiencies was $1,943,000, with corresponding cumulative credits to permanently restricted net assets and temporarily restricted net assets of $55,000 and $1,888,000, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new restricted contributions.

3. Endowment Investment Guidelines

As adopted by the Board of Trustees of the College on April 6, 2002, the College's Investment Guidelines are as follows: to invest the College's endowment assets in a generally accepted prudential manner and produce an average annual total return on investments over a five-year period of at least the sum of the spending formula distribution rate plus the direct cost of investing these funds (investment advisor, brokerage, investment manager, custodial fees, etc.) plus the current rate of inflation as measured by the U.S. Department of Labor's Consumer Price Index. The Committee on Investments of the Board of Trustees is responsible for the management of the College's investments, including endowment and deferred giving assets.

The intent of the guidelines is to try to provide a predictable stream of funding to the College's programs from its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity, board-designated funds, plus the following where the assets have been designated for endowment: pledges receivable, split-interest agreements and loan funds.

4. Endowment Spending Policy

Effective with the fiscal year 2011-2012, the spending rate(s) are applied to a base calculated from the 36-month weighted average market value ending as of the previous December. In addition, beginning in fiscal year 2011-2012, the Board resolved to reduce the 6.00% spending formula rate for the Scholarship Pool (established July 1, 1999) by 0.25% per year until the Associated Pool spending rate of 5.00% was achieved. For the 2012-2013 fiscal year, the draw rate from the Scholarship Pool was 5.50%, with the goal of achieving the target 5.00% rate in fiscal year 2014-2015.

Based on the amount drawn under this policy, the College also applies Act 141 and calculates a spending percentage annually for approval by the Board, using the trailing twelve-quarter market value. This calculated spending percentage cannot be less than 2.00% or more than 7.00% and will differ from the spending percentage calculated using the College's model market value. Under Act 141, the Board has approved the Endowment Pool spending percentage of 4.95% and 5.26% for the years ended June 30, 2013 and 2012, respectively.

(Continued)

NOTE D - ENDOWMENTS - Continued

5. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Two consultants have been hired to assist the Committee on Investments and the Board of Trustees by outsourcing best practice due diligence functions. Different investment managers have been employed over the years and have included a wide range of investment styles, including alternative strategies. As mentioned previously, the rationale for including alternative strategy managers for the College's portfolio is to reduce volatility consistent with a goal of generating absolute return. The College is considering, and may elect to utilize, a different management structure for the endowment and long-term investments in the future.

6. Endowment Fund Activity for the Years Ended June 30, 2013 and 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment total, June 30, 2012	$ 185,943,441	$ 230,330,627	$ 265,262,098	$ 681,536,166
Contributions	141,568	555,050	7,222,538	7,919,156
Interest and dividends	9,529,663	-	-	9,529,663
Realized and unrealized gains (losses)	36,853,965	28,695,198	9,315,733	74,864,896
Endowment spending distribution	(29,442,597)	(179,998)	-	(29,622,595)
Matured annuity funds	(445,911)	(355,481)	801,392	-
Provision for bad debt on contributions receivable	22,500	-	(112,040)	(89,540)
Distribution to fund annuities payable	(41,174)	(692,520)	(911,570)	(1,645,264)
Change in estimate for annuities payable	72,713	17,997	1,324,645	1,415,355
Deficiencies in historical values	1,111,309	(1,101,825)	(9,484)	-
Change in donor intent	901,000	(2,000,136)	2,001,885	902,749
Operating transfers and other changes	4,183,609	(30,993)	67,859	4,220,475
Endowment total, June 30, 2013	$ 208,830,086	$ 255,237,919	$ 284,963,056	$ 749,031,061
Endowment total, June 30, 2011	$ 185,843,980	$ 240,214,576	$ 262,827,679	$ 688,886,235
Contributions	2,227,002	4,627,778	7,076,562	13,931,342
Interest and dividends	9,916,754	-	-	9,916,754
Realized and unrealized gains (losses)	12,895,573	(13,825,815)	(3,417,403)	(4,347,645)
Endowment spending distribution	(28,679,832)	(281,515)	-	(28,961,347)
Matured annuity funds	34,542	(408,993)	374,451	-
Provision for bad debt on contributions receivable	(22,500)	-	(134,840)	(157,340)
Distribution to fund annuities payable	-	(651,510)	(1,236,337)	(1,887,847)
Change in estimate for annuities payable	6,325	972,594	(1,071,809)	(92,890)
Deficiencies in historical values	(447,000)	583,000	(136,000)	-
Change in donor intent	11,702	174,224	971,797	1,157,723
Operating transfers and other changes	4,156,895	(1,073,712)	7,998	3,091,181
Endowment total, June 30, 2012	$ 185,943,441	$ 230,330,627	$ 265,262,098	$ 681,536,166

NOTE E - LONG-TERM OBLIGATIONS

The College has various long-term obligations, primarily through the issuance of long-term bonds. The College's long-term obligations at June 30 are summarized as follows:

	2013	2012
Bonds payable		
Northampton County Higher Education Authority, College Revenue Bonds, Series A of 1998	$ 18,200,000	$ 18,200,000
Northampton County Higher Education Authority, Variable Rate College Revenue Bonds, Series B of 1998	4,000,000	4,000,000
Northampton County General Purpose Authority, Variable Rate Revenue Refunding Bonds, Series of 2003	10,190,000	10,190,000
Northampton County General Purpose Authority, College Revenue Bonds, Series of 2006	14,100,000	14,100,000
Northampton County General Purpose Authority, College Refunding and Revenue Bonds, Series of 2008	95,705,000	95,955,000
Northampton County General Purpose Authority, Variable Rate College Revenue Refunding Bonds, Series A of 2010	22,290,000	22,290,000
Northampton County General Purpose Authority, College Revenue Bonds, Series B of 2010	4,000,000	4,000,000
Plus: Premium	1,389,011	1,596,308
Total bonds payable	169,874,011	170,331,308
Capitalized lease obligations		
Guarantee for student residence at 512 March Street	2,940,000	2,500,000
Other	334,211	366,661
Total capitalized lease obligations	3,274,211	2,866,661
Total long-term obligations	$ 173,148,222	$ 173,197,969

Under the terms of its various debt documents, the College is required to comply with various financial covenants, including the maintenance of a specified debt service coverage ratio. The College was in compliance with such covenants as of June 30, 2013.

1. Series A of 1998

On June 17, 1998, the Variable Rate College Revenue Bonds, Series A of 1998 (the 1998 A Bonds) were issued by the Northampton County Higher Education Authority in the amount of $18,200,000. The 1998 A Bonds were to finance a portion of the renovation of the existing Allan P. Kirby Field House, construction and equipping of an attached intramural/recreation facility, a portion of the construction of and renovations to certain academic facilities, and bond issuance costs.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

At June 30, 2013 and 2012, the 1998 A Bonds are included in the statements of financial position at their par value of $18,200,000. The principal is due on November 1, 2028.

The 1998 A Bonds bear interest at a variable rate per annum as determined weekly by the remarketing agent. If the 1998 A Bonds are submitted to the College for tender, they are remarketed by the remarketing agent on a best efforts basis. If tendered, and the 1998 A Bonds are not remarketed, a liquidity facility is in place to cover the bonds payable. The expiration date of the liquidity facility is October 2015. The College has the right to request an extension of the facility up to 120 days in advance of the expiration date. If the liquidity facility is drawn upon, the College would be obligated to repay the principal in quarterly installments over three years. The College expects that bonds submitted for tender will continue to be remarketed successfully due to the College's creditworthiness.

At June 30, 2013 and 2012, the variable rates per annum were 0.10% and 0.19%, respectively. Using the interest rate at June 30, 2013, annual interest payments are estimated at $18,200 through the year ending June 30, 2028 and $6,067 for the year ending June 30, 2029.

The proceeds of the 1998 A Bonds have been loaned to the College pursuant to a Loan Agreement dated as of June 1, 1998 (the Loan Agreement) between the Northampton County Higher Education Authority and the College. The Northampton County Higher Education Authority assigned certain of its rights under the Loan Agreement, including the right to receive loan repayments thereunder, to the Trustee as security for the 1998 A Bonds. The Loan Agreement requires the College, among other things, to make loan repayments in amounts sufficient to pay the principal or redemption price of and interest on the 1998 A Bonds when due and the purchase price of the 1998 A Bonds that are tendered and not remarketed to the extent the bank fails to honor a draw under the liquidity facility and to pay certain costs and expenses. No mortgage or other security interest was granted in the acquired assets or in revenues to secure the College's obligations under the Loan Agreement.

2. Series B of 1998

On July 9, 1998, the Variable Rate College Revenue Bonds, Series B of 1998, (the 1998 B Bonds) were issued by the Northampton County Higher Education Authority in the amount of $6,800,000. The 1998 B Bonds were used to finance a portion of the construction of and renovations to certain academic facilities and bond issuance costs.

At both June 30, 2013 and 2012, the 1998 B Bonds are included in the statements of financial position at their par value of $4,000,000. The principal is due on November 1, 2028.

The 1998 B Bonds bear interest at a variable rate per annum as determined weekly by the remarketing agent. If the 1998 B Bonds are submitted to the College for tender, they are remarketed by the remarketing agent on a best efforts basis. If tendered, and the 1998 B Bonds are not remarketed, a liquidity facility is in place to cover the bonds payable. The expiration date of the liquidity facility is October 2015. The College has the right to request an extension of the facility up to 120 days in advance of the expiration date. If the liquidity facility is drawn upon, the College would be obligated to repay the principal in quarterly installments over three years. The College expects that bonds submitted for tender will continue to be remarketed successfully due to the College's creditworthiness.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

At June 30, 2013 and 2012, rates per annum were 0.10% and 0.19%, respectively. Using the interest rate at June 30, 2013, annual interest payments are estimated at $4,000 through the year ending June 30, 2028 and $1,334 for the year ending June 30, 2029.

The proceeds of the 1998 B Bonds have been loaned to the College pursuant to a Loan Agreement dated as of June 1, 1998 (the Loan Agreement) between the Northampton County Higher Education Authority and the College. The Northampton County Higher Education Authority assigned certain of its rights under the Loan Agreement, including the right to receive loan repayments thereunder, to the Trustee as security for the 1998 B Bonds. The Loan Agreement requires the College, among other things, to make loan repayments in amounts sufficient to pay the principal or redemption price of and interest on the 1998 B Bonds when due and the purchase price of the 1998 B Bonds that are tendered and not remarketed to the extent the bank fails to honor a draw under the liquidity facility and to pay certain costs and expenses. No mortgage or other security interest was granted in the acquired assets or in revenues to secure the College's obligations under the Loan Agreement.

3. Series of 2003

On April 2, 2003, the Variable Rate College Revenue Refunding Bonds, Series of 2003, (the 2003 Bonds) were issued by the Northampton County General Purpose Authority (the County General Purpose Authority) in the amount of $10,190,000. The 2003 Bonds were used by the College for the purpose of refunding the 1993 Bonds on July 1, 2003.

At June 30, 2013 and 2012, the 2003 Bonds are included in the statements of financial position at their par value of $10,190,000. The principal is due on November 1, 2023.

The 2003 Bonds bear interest at a variable rate per annum as determined weekly by the remarketing agent. If the 2003 Bonds are submitted to the College for tender, they are remarketed by the remarketing agent on a best efforts basis. If tendered, and the 2003 Bonds are not remarketed, a liquidity facility is in place to cover the bonds payable. The expiration date of the liquidity facility is October 2015. The College has the right to request an extension of the facility up to 120 days in advance of the expiration date. If the liquidity facility is drawn upon, the College would be obligated to repay the principal in quarterly installments over three years. The College expects that bonds submitted for tender will continue to be remarketed successfully due to the College's creditworthiness.

At June 30, 2013 and 2012, rates per annum were 0.10% and 0.19%, respectively. Using the interest rate at June 30, 2013, annual interest payments are estimated at $10,190 through the year ending June 30, 2023 and $3,397 for the year ending June 30, 2024.

The College has internally associated the 2003 Swap to the Series of 2003 Bonds to synthetically hedge these variable rate bonds to, effectively, a fixed-rate exposure. For budgeting purposes, the College uses the synthetic fixed rate as its cost base, exceeding program fees, for this debt. For the years ended June 30, 2013 and 2012, net payments of $429,140 and $428,205, respectively, were made to the counterparty and are included as operating interest expense in the statements of activities. See Note E10.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

The proceeds of the 2003 Bonds have been loaned to the College pursuant to a Loan Agreement dated as of April 1, 2003 between the County General Purpose Authority and the College. The County General Purpose Authority assigned certain of its rights under the Loan Agreement, including the right to receive loan repayments thereunder, to the Trustee as security for the 2003 Bonds. The Loan Agreement requires the College, among other things, to make loan repayments in amounts sufficient to pay the principal or redemption price of and interest on the 2003 Bonds when due and the purchase price of the 2003 Bonds that are tendered and not remarketed to the extent the bank fails to honor a draw under the liquidity facility and to pay certain costs and expenses. No mortgage or other security interest was granted in the acquired assets or in revenues to secure the College's obligations under the Loan Agreement.

4. Series of 2006

On September 14, 2006, the Variable Rate College Revenue Refunding Bonds, Series of 2006, (the 2006 Bonds) were issued by the County General Purpose Authority in the amount of $15,100,000. The 2006 Bonds were used by the College for the renovation and construction of the College's football facilities, including the relocation of the track to Metzgar Fields.

At June 30, 2013 and 2012, the 2006 Bonds are included in the statements of financial position at their par value of $14,100,000. The principal is due on November 1, 2036.

The 2006 Bonds bear interest at a variable rate per annum as determined weekly by the remarketing agent. If the 2006 Bonds are submitted to the College for tender, they are remarketed by the remarketing agent on a best efforts basis. If tendered 2006 Bonds are not remarketed, a liquidity facility is in place to cover the bonds payable. The expiration date of the liquidity facility is October 2015. The College has the right to request an extension of the facility up to 120 days in advance of the expiration date. If the liquidity facility is drawn upon, the College would be obligated to repay the principal in quarterly installments over three years. The College expects that bonds submitted for tender will continue to be remarketed successfully due to the College's creditworthiness.

At June 30, 2013 and 2012, the interest rate per annum was 0.10% and 0.19%, respectively. Using the interest rate at June 30, 2013, annual interest payments are estimated at $14,100 through the year ending June 30, 2036 and $4,700 for the year ending June 30, 2037.

The College has internally associated the 2006 Swap to $11,000,000 of the $14,100,000 Series of 2006 Bonds outstanding to synthetically hedge $11,000,000 of these variable rate bonds to, effectively, a fixed-rate exposure. For budgeting purposes, the College uses the synthetic fixed rate as its cost base, exceeding program fees, for this debt. For the years ended June 30, 2013 and 2012, net payments of $404,444 and $399,210, respectively, were made to the counterparty and are included as operating interest expense in the statements of activities. See Note E10.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

The proceeds of the 2006 Bonds have been loaned to the College pursuant to a Loan Agreement dated as of September 1, 2006 between the County General Purpose Authority and the College. The County General Purpose Authority assigned certain of its rights under the Loan Agreement, including the right to receive loan repayments thereunder, to the Trustee as security for the 2006 Bonds. The Loan Agreement requires the College, among other things, to make loan repayments in amounts sufficient to pay the principal or redemption price of and interest on the 2006 Bonds when due and the purchase price of the 2006 Bonds that are tendered and not remarketed to the extent the bank fails to honor a draw under the liquidity facility and to pay certain costs and expenses. No mortgage or other security interest was granted in the acquired assets or in revenues to secure the College's obligations under the Loan Agreement.

5. Series of 2008

On August 21, 2008, the Lafayette College Refunding and Revenue Bonds, Series of 2008, (the 2008 Bonds) were issued by the County General Purpose Authority in the amount of $96,705,000. The 2008 Bonds were used by the College for the purposes of retiring the Series of 1997 Bonds, which were fixed rate ($20,290,000), including unamortized discount, the Series of 2004 Bonds ($23,575,000), the Second Series of 2004 Bonds ($29,500,000), the 1997 Capital Notes ($18,830,000 of the $19,830,000 principal due at June 30, 2008), the funding of both various capital projects and a portion of a real estate purchase, and to finance bond issuance costs.

At June 30, 2013 and 2012, the 2008 Bonds are included in the statements of financial position at $95,705,000 and $95,955,000, respectively. In addition, the remaining net unamortized premium as of June 30, 2013 and 2012 was $1,094,714 and $1,268,695, respectively, and will be amortized as a credit to interest expense over the life of the issue.

The proceeds of the 2008 Bonds have been loaned to the College pursuant to a Loan Agreement dated as of August 1, 2008 between the County General Purpose Authority and the College. The County General Purpose Authority assigned certain of its rights under the Loan Agreement, including the right to receive loan repayments thereunder, to the Trustee as security for the 2008 Bonds. The Loan Agreement requires the College, among other things, to make loan repayments in amounts sufficient to pay the principal or redemption price of and interest on the 2008 Bonds when due. No mortgage or other security interest was granted in the acquired assets or in revenues to secure the College's obligations under the Loan Agreement.

6. Series A of 2010

On April 30, 2010, the Lafayette College Variable Rate College Revenue Refunding Bonds, Series 2010A, (the 2010 A Bonds), were issued by the County General Purpose Authority in the amount of $22,290,000. The 2010 A Bonds were used by the College for the purpose of retiring the Series of 2000 Bonds, which were fixed rate ($21,932,000), including unamortized discount.

At June 30, 2013 and 2012, the 2010 A Bonds are included in the statements of financial position at their par value in the amount of $22,290,000. The principal is due on May 1, 2030.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

The 2010 A Bonds bear interest at a variable rate per annum as determined weekly by the remarketing agent. If the 2010 A Bonds are submitted to the College for tender, they are remarketed by the remarketing agent on a best efforts basis. If tendered, and the 2010 A Bonds are not remarketed, a liquidity facility is in place to cover the bonds payable. The expiration date of the liquidity facility is April 2016. The College has the right to request an extension of the facility up to 90 days in advance of the expiration date. If the liquidity facility is drawn upon, the College would be obligated to repay the principal in monthly installments over three years. The College expects that bonds submitted for tender will continue to be remarketed successfully due to the College's creditworthiness. In the event that the 2010 A Bonds cannot be remarketed after April 2016 and the underlying facility is not renewed, the 2010 A Bonds would be a current obligation of the College and $22,290,000 would be payable immediately.

At June 30, 2013 and 2012, the interest rate per annum was 0.08% and 0.19%, respectively. Using the interest rate at June 30, 2013, annual interest payments are estimated at $17,832 through the year ending June 30, 2029 and $14,444 for the year ending June 30, 2030.

The College has internally associated the 2010 Swap to the Series of 2010 A Bonds to synthetically hedge these variable rate bonds to, effectively, a fixed-rate exposure. For budgeting purposes, the College uses the synthetic fixed rate as its cost base, exceeding program fees, for this debt. For the years ended June 30, 2013 and 2012, net payments of $1,249,924 and $1,248,201, respectively, were made to the counterparty and are included as operating interest expense in the statements of activities. See Note E10.

The proceeds of the 2010 A Bonds have been loaned to the College pursuant to a Loan Agreement dated as of April 1, 2010 between the County General Purpose Authority and the College. The County General Purpose Authority assigned certain of its rights under the Loan Agreement, including the right to receive loan repayments thereunder, to the Trustee as security for the 2010 A Bonds. The Loan Agreement requires the College, among other things, to make loan repayments in amounts sufficient to pay the principal or redemption price of and interest on the 2010 A Bonds when due and the purchase price of the 2010 A Bonds that are tendered and not remarketed to the extent the bank fails to honor a draw under the liquidity facility and to pay certain costs and expenses. No mortgage or other security interest was granted in the acquired assets or in revenues to secure the College's obligations under the Loan Agreement.

7. Series B of 2010

On April 30, 2010, the Lafayette College Revenue Bonds, Series 2010B, (the 2010 B Bonds) were issued by the County General Purpose Authority in the amount of $4,000,000. The 2010 B Bonds were used by the College for various capital projects and improvements.

At June 30, 2013 and 2012, the 2010 B Bonds are included in the statements of financial position at their par value of $4,000,000. In addition, the remaining net unamortized premium as of June 30, 2013 and 2012 was $294,297 and $327,613, respectively, and will be amortized as a credit to interest expense over the life of the issue.

NOTE E - LONG-TERM OBLIGATIONS - Continued

The 2010 B Bonds bear interest at 5.00% and are due on May 1, 2022. Annual interest payments are $200,000 through the years ending June 30, 2021 and $166,700 for the year ending June 30, 2022.

The proceeds of the 2010 B Bonds have been loaned to the College pursuant to a Loan Agreement dated as of April 1, 2010 between the County General Purpose Authority and the College. The County General Purpose Authority assigned certain of its rights under the Loan Agreement, including the right to receive loan repayments thereunder, to the Trustee as security for the 2010 B Bonds. The Loan Agreement requires the College, among other things, to make loan repayments in amounts sufficient to pay the principal or redemption price of and interest on the 2010 B Bonds when due. No mortgage or other security interest was granted in the acquired assets or in revenues to secure the College's obligations under the Loan Agreement.

8. Student Residence at 512 March Street

On August 25, 2011, the College entered into various agreements related to the development of a new residential facility on a College-owned land parcel with an address of 512 March Street in Easton, Pennsylvania. The College is leasing this property to a developer who constructed and manages the facility. The College then master leases the facility from the developer as a student residence. The facility, which students began occupying in August 2012, has 31 beds in 12 apartments. The initial term of the lease is five years, and the College and developer may also agree to up to five additional five-year renewals, totaling a maximum term of not more than 30 years. As part of the development agreement, the College guarantees the borrower's $3,000,000 loan. During the construction phase and through February 27, 2013, the loan required interest payments based on a variable rate of the 1-month LIBOR rate plus 50 basis points. On February 28, 2013, the loan converted to a permanent loan with a fixed interest rate of 3.75% maturing on August 29, 2021. The College retains ownership of the land, and the agreement allows the College to purchase the facility from the developer and assume the loan according to the negotiated terms.

9. Other Capitalized Lease Obligations

The capitalized lease obligations are collateralized by the related property and equipment. A summary of minimum lease payments as of June 30, 2013 follows:

Year ended June 30, 2013	$ 351,497
Less amount representing interest	(17,286)
Present value of net minimum lease payments	$ 334,211

NOTE E - LONG-TERM OBLIGATIONS - Continued

Aggregate principal maturities of bonds and capitalized lease obligations are as follows:

Year ending June 30:	
2014	$ 472,662
2015	472,662
2016	472,662
2017	396,225
2018	370,000
2019	21,270,000
2020	120,000
2021	120,000
2022	5,980,000
2023	10,190,000
2024-2037	131,895,000
Unamortized bond premium	1,389,011
	$ 173,148,222

Total interest expense on long-term obligations, net of investment income from deposits with bond trustee and capitalized interest, totaled $7,221,610 and $7,348,094 for the years ended June 30, 2013 and 2012, respectively.

10. Derivative Instruments - Interest Rate Hedge/Swap Agreements

At June 30, 2013, the College has three fixed interest rate exchange agreements ("Swap Contracts") in order to hedge a portion of its interest rate exposure on floating rate tax exempt bonds. The College pays to a financial institution (the Counterparty) a fixed rate, and the Counterparty pays to the College a variable rate (based on an index). The College's Swap Contracts contain certain derivative risks, including tax and/or basis risk, counterparty risk, collateral risk and termination risk, among others.

The College entered into the Swap Contracts as a part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Each of the three Swap Contracts below are used to hedge certain interest rate exposures and are not used for speculative purposes. Interest rate hedge/swap agreements are recognized as either other long-term assets or other long-term liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

Gains or losses resulting from changes in the fair values of the interest rate hedge/swap agreements are reported as nonoperating gains or losses. Gains or losses on the hedging contracts can occur for various reasons, but a principal reason is often related to market changes in long-term interest rates (of a similar long-term duration or term) as the College's Swap Contracts. The net payments either made to or received from the counterparty are reported as part of operating interest expense in the statements of activities in the categories of Instruction, Student Services and Auxiliary Services. For the years ended June 30, 2013 and 2012, net payments to the counterparty were $2,083,508 and $2,075,616, respectively, as detailed for each Swap Contract in the table on the following page.

On December 19, 2002, the College entered into a fixed payor Swap Contract to hedge its anticipated Series of 2003 variable rate refunding bonds (the 2003 Swap). The Series of 2003 Bonds were issued in April 2003. The College is paying the Counterparty 4.339% and receiving the SIFMA Index (formerly referred to as the BMA Index) on the 2003 Swap. The 2003 Swap has a scheduled end date of November 1, 2023.

On March 28, 2003, the College sold the Counterparty an option to enter into a fixed-payor Swap Contract in May 2010 (the 2000 Swaption). In 2003, the College received a payment of $1,954,000 (less expenses of $95,000 incurred by the College) from the Counterparty for this option. The 2000 Swaption was designed to hedge its interest rate exposure on a future refunding bond issue in 2010. On April 30, 2010, the Series of 2010 A Bonds were issued to refund the College's Series of 2000 Bonds. Also, as part of this agreement, the Counterparty paid the College $150,000, which the College applied toward the issuance costs of the 2010 Refunding Bonds. As of May 1, 2010, the cash flow obligations under the 2000 Swaption began, effectively becoming the 2010 Swap. Under the terms of the 2010 Swap, the College pays the Counterparty a fixed rate of 6.000% and receives the SIFMA Index plus 0.25%. The 2010 Swap has a scheduled end date of May 1, 2030.

On May 28, 2004, the College entered into a fixed-payor Swap Contract to hedge a portion ($11.0 million of the $29.5 million aggregate par size) of its Second Series of 2004 variable rate bonds (the 2004 Swap). On August 21, 2008, the College retired the Second Series of 2004 Bonds and subsequently associated the provisions of the 2004 Swap to the Series of 2006 Bonds (the 2006 Swap). The College is paying the Counterparty 3.880%, and the College receives a varying percentage of one-month LIBOR. The 2006 Swap has a scheduled end date of May 31, 2034.

The fair values of the fixed rate Swap Contracts shown below are negative to the College and, therefore, are recorded as long-term liabilities. Regarding collateralization, if the College's fair value liability of the Swap Contracts to the counterparty exceeds $10,000,000 in the aggregate, the College is required to collateralize the amount in excess of $10,000,000. If a positive fair value is due to the College from the counterparty, the counterparty is required to provide collateral to the College for the amount in excess of $5,000,000. For purposes of these daily collateral calculations, the fair values of the three Swap Contracts are netted. The thresholds and collateralization requirements can change with ratings of the College's bonds payable.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

Accordingly, as of June 30, 2013 and 2012, the required collateral amounts of $4,406,026 and $10,200,719, respectively, are presented on the statements of financial position within deposits with bond and other trustees.

The following tables provide details on the College's cash flow hedging instruments (amounts below in thousands):

Swap	Location on statement of financial position	Fair value liability June 30, 2013	Notional amount outstanding	Rate paid	Rate received	Average rate received in fiscal 2013	Counterparty
2010	Int rate hedges	$ 9,344	$ 22,290	6.000%	SIFMA + 0.25%	0.39%	UBS
2006	Int rate hedges	2,971	11,000	3.880	% of LIBOR	0.19	UBS
2003	Int rate hedges	2,091	10,190	4.339	SIFMA	0.14	UBS
		$ 14,406	$ 43,480				

The table below presents the net payments to the counterparty for each Swap Contract for the years ended June 30, 2013 and 2012:

	2003 Swap	2006 Swap	2010 Swap	Totals
Year ended June 30, 2013	$ 429,140	$ 404,444	$ 1,249,924	$ 2,083,508
Year ended June 30, 2012	428,205	399,210	1,248,201	2,075,616

The reported termination liabilities, totaling an estimated $14,406,000 as of June 30, 2013, in the table below represent the estimated amounts the College would pay to terminate all of these Swap Contracts were they to be terminated at fiscal year end and prior to their scheduled end dates.

	2003 Swap	2006 Swap	2010 Swap	Totals
Termination liabilities June 30, 2011	$ 1,588,291	$ 2,194,760	$ 7,859,984	$ 11,643,035
Nonoperating fair value loss	1,349,078	2,322,989	4,885,617	8,557,684
Termination liabilities June 30, 2012	2,937,369	4,517,749	12,745,601	20,200,719
Nonoperating fair value gain	(846,726)	(1,546,133)	(3,401,834)	(5,794,693)
Termination liabilities June 30, 2013	$ 2,090,643	$ 2,971,616	$ 9,343,767	$ 14,406,026

NOTE F - BENEFIT PLANS

1. Defined Contribution Plan

The College has a multi-employer defined contribution pension plan (the Plan) provided through Teachers Insurance and Annuity Association of America and College Retirement Equities Fund and Fidelity Investments covering substantially all regular full-time employees. The College uses a July 1 measurement date for the Plan. The College's contributions to the Plan for the years ended June 30, 2013 and 2012 amounted to approximately $4,675,000 and $4,510,000, respectively.

2. Postretirement Health Plan

The College accrues expected medical and other postretirement benefits over the years that the employees render the necessary service. The postretirement health plan covers primarily full-time employees who joined the College before July 1, 1996 and have continued on a full-time basis since their start of employment.

The following sets forth the plan status with amounts reported in the College's financial statements at June 30:

	2013	2012
Accumulated postretirement benefit obligation (APBO)		
Retirees and spouses	$ 17,180,000	$ 15,840,000
Other fully eligible participants	21,042,000	19,932,000
Other active plan participants not yet fully eligible	7,224,000	10,687,000
Accumulated postretirement benefit obligation	$ 45,446,000	$ 46,459,000

Net periodic postretirement benefit cost for the years ended June 30, 2013 and 2012 included the following components:

	2013	2012
Service cost - benefits attributed to service during the period	$ 358,000	$ 361,000
Interest cost on accumulated postretirement benefit obligation	1,950,000	2,088,000
Amortization of net loss	186,000	-
Net periodic postretirement benefit cost	2,494,000	2,449,000
Net benefit payments	(1,046,000)	(980,000)
Net change in accrued postretirement benefit costs	1,448,000	1,469,000
Current year adjustments		
Amortization of net gain	(186,000)	-
Assumption changes	(3,612,000)	-
Experience losses	1,337,000	8,074,000
Net change in accrued postretirement benefit obligation	$ (1,013,000)	$ 9,543,000

(Continued)

NOTE F - BENEFIT PLANS - Continued

A 7.00% annual rate of increase in the per capita costs of covered health care benefits was assumed for 2013 and all years thereafter. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the medical portion of the APBO as of June 30, 2013 by $7,417,000 and increase the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for 2013 by $439,000. A discount rate of 4.75% was used to determine the APBO for June 30, 2013, and a discount rate of 4.25% was used to determine the accumulated postretirement obligation for June 30, 2012.

The College recognizes the difference between the cumulative accrued periodic postretirement benefits expense charged to annual operations and the total APBO accrued as the postretirement benefits liability with a corresponding credit or charge to nonoperating unrestricted net assets. At June 30, 2013, the corresponding cumulative charge was $3,672,000, and at June 30, 2012, the corresponding cumulative credit was $6,133,000.

The net periodic postretirement benefits cost includes $186,000 for the year ended June 30, 2013 and $-0- for the year ended June 30, 2012, for the amortization of a portion of the unrecognized loss resulting from the difference between the APBO and the cumulative accrued periodic postretirement benefits. In addition, gains or losses have been recognized and added to or deducted from the APBO in the amount of $2,461,000 of gain at June 30, 2013 and $8,074,000 of loss at June 30, 2012.

Projected benefit payments are as shown below:

Year beginning July 1:	Expected College cost
2014	$ 1,504,000
2015	1,625,000
2016	1,739,000
2017	1,868,000
2018	1,968,000
2019-2023 (five years inclusive, in total)	11,771,000
	$ 20,475,000

Employees hired on or after July 1, 1996 are not eligible for retiree health insurance benefits. Effective July 1, 1997, the College introduced retiree cost-sharing and implemented programs intended to stem rising costs. This amendment resulted in an unrecognized negative prior service cost that is amortized as a reduction in postretirement benefit costs.

NOTE G - FAIR VALUE MEASUREMENTS

The College has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy under U.S. GAAP are described below:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Financial assets and liabilities whose values are based on one or more of the following:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in non-active markets;
3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The College's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that the College has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and indicates the fair value hierarchy of the valuation techniques utilized by the College to determine such fair value.

June 30, 2013

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Cash and cash equivalents	$ 62,307,803	$ -	$ -	$ 62,307,803
Short-term investments	812,555	-	742,161	1,554,716
Deposits with bond and other trustees	-	4,406,570	-	4,406,570
Fixed income investments	8,311,982	-	-	8,311,982
Fixed income mutual funds	6,272,477	2,475,572	-	8,748,049
Fixed income institutional mutual funds	49,439,126	-	-	49,439,126
Equity stocks	82,790,930	-	-	82,790,930
Equity mutual funds	148,232,304	1,060,959	-	149,293,263
Equity institutional mutual funds	-	113,705,067	-	113,705,067
Alternative investments				
Event driven/distressed	-	-	20,937,202	20,937,202
Derivatives	-	10,472,916	-	10,472,916
Long/short equity	-	32,030,593	-	32,030,593
Multi-strategy/absolute return	-	-	108,042,493	108,042,493
Opportunistic fixed income	-	55,137,812	7,749	55,145,561
Real estate	-	-	24,187,980	24,187,980
Private equity	-	-	59,867,147	59,867,147
Total assets	$ 358,167,177	$ 219,289,489	$ 213,784,732	$ 791,241,398
Liabilities				
Interest rate hedge/swap agreements	$ -	$ 14,406,026	$ -	$ 14,406,026
Total liabilities	$ -	$ 14,406,026	$ -	$ 14,406,026

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the College has utilized Level 3 inputs to determine fair value for the year ended June 30, 2013. The purchases, capital calls, redemptions, distributions, realized and unrealized gains and losses reported are estimates when an individual manager utilizes multiple investment strategies.

	Fair value measurements (Level 3)							
	Short-term investments	Event driven/ distressed	Long/short equity	Multi-strategy/ absolute return	Opportunistic fixed income	Real estate	Private equity	Total
June 30, 2012 balance	$ 725,823	$ 41,220,076	$ 18,486,740	$ 105,843,983	$ 4,210,281	$ 28,813,919	$ 54,109,907	$ 253,410,729
Reallocation to Level 3 from prior year	-	-	-	-	14,911,379	-	-	14,911,379
Reallocation to investment type	-	(4,467,338)	-	-	(4,210,281)	-	8,677,619	-
Transfers in: capital calls	-	36,001	-	-	-	-	3,533,026	3,569,027
Transfers in: purchases	16,338	-	-	-	-	-	-	16,338
Transfers out: distributions	-	(3,176,961)	-	-	(6,522,399)	(3,299,191)	(8,774,135)	(21,772,686)
Transfers out: redemptions	-	(938,019)	(13,798,103)	(8,385,338)	-	-	(1,790,940)	(24,912,400)
Transfers out: realized losses/(gains)	-	(5,457,959)	(7,101,014)	(4,315,407)	(12,444,331)	(2,173,186)	(7,050,672)	(38,542,569)
Unrealized gains/(losses)	-	(6,278,598)	2,412,377	14,899,255	4,063,100	846,438	11,162,342	27,104,914
June 30, 2013 balance	$ 742,161	$ 20,937,202	$ -	$ 108,042,493	$ 7,749	$ 24,187,980	$ 59,867,147	$ 213,784,732

NOTE G - FAIR VALUE MEASUREMENTS - Continued

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and indicates the fair value hierarchy of the valuation techniques utilized by the College to determine such fair value.

June 30, 2012

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Cash and cash equivalents	$ 46,235,894	$ -	$ -	$ 46,235,894
Short-term investments	1,239,796	-	725,823	1,965,619
Deposits with bond and other trustees	1,939,551	10,200,719	-	12,140,270
Fixed income investments	117,410	-	-	117,410
Fixed income mutual funds	16,399,848	2,439,590	-	18,839,438
Fixed income institutional mutual funds	54,317,622	13,923,459	-	68,241,081
Equity stocks	62,773,623	-	-	62,773,623
Equity mutual funds	113,676,968	1,045,539	-	114,722,507
Equity institutional mutual funds	-	65,828,143	-	65,828,143
Alternative investments				
Event driven/distressed	-	-	41,220,076	41,220,076
Derivatives	-	10,910,925	-	10,910,925
Long/short equity	-	42,806,139	18,486,740	61,292,879
Multi-strategy/absolute return	-	-	105,843,983	105,843,983
Opportunistic fixed income	-	32,072,688	4,210,281	36,282,969
Real estate	-	-	28,813,919	28,813,919
Private equity	-	-	54,109,907	54,109,907
Total assets	$ 296,700,712	$ 179,227,202	$ 253,410,729	$ 729,338,643
Liabilities				
Interest rate hedge/swap agreements	$ -	$ 20,200,719	$ -	$ 20,200,719
Total liabilities	$ -	$ 20,200,719	$ -	$ 20,200,719

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the College has utilized Level 3 inputs to determine fair value for the year ended June 30, 2012. The purchases, capital calls, redemptions, distributions, realized and unrealized gains and losses reported are estimates when an individual manager utilizes multiple investment strategies.

	Fair value measurements (Level 3)							
	Short-term investments	Event driven/ distressed	Long/short equity	Multi-strategy/ absolute return	Opportunistic fixed income	Real estate	Private equity	Total
June 30, 2011 balance	$ 667,114	$ 30,403,222	$ 35,412,003	$ 52,403,826	$ 5,633,859	$ 36,675,628	$ 72,917,213	$ 234,112,865
Reallocation to Level 3 from prior year	-	-	-	51,069,595	-	-	-	51,069,595
Transfers in: purchases	58,709	-	-	-	-	-	-	58,709
Transfers in: capital calls	-	80,701	-	-	-	-	4,952,901	5,033,602
Transfers out: distributions	-	(429,282)	-	-	-	(5,368,474)	(8,497,204)	(14,294,960)
Transfers out: realized gains	-	(1,273,460)	-	(142,875)	-	(5,094,290)	(5,566,935)	(12,077,560)
Unrealized gains/(losses)	-	12,438,895	(16,925,263)	2,513,437	(1,423,578)	2,601,055	(9,696,068)	(10,491,522)
June 30, 2012 balance	$ 725,823	$ 41,220,076	$ 18,486,740	$ 105,843,983	$ 4,210,281	$ 28,813,919	$ 54,109,907	$ 253,410,729

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2013 are as follows, with redemption frequency and redemption notice periods outlined.

Category		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fixed income mutual funds		$ 2,475,572	$ -	None	N/A
Equity mutual funds		1,060,959	-	None	N/A
Equity institutional mutual funds		113,705,067	-	Month-Qtr	None-60 days
Event driven/distressed funds	(a)	20,937,202	879,398	None	N/A
Derivatives	(b)	10,472,916	-	Daily	1 day
Long/short equity funds	(c)	32,030,593	-	Qtr-CY	30/60-90 days
Multi-strategy/absolute return funds	(d)	108,042,493	-	None-Qtr-CY	N/A-None-60/90 days
Opportunistic fixed income funds	(e)	55,145,561	-	None-Qtr	N/A-90 days
Real estate funds	(f)	24,187,980	1,856,040	None	N/A
Private equity funds	(g)	59,867,147	26,284,374	None	N/A
		$ 427,925,490	$ 29,019,812		

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

(a) *Event driven/distressed funds* - investments in non-control, U.S. dollar denominated securities of distressed global companies.

(b) *Derivatives* - investments in global currency futures on a long and short basis with the total amount consisting solely of funds placed with a new manager selected on July 1, 2011.

(c) *Long/short equity funds* - investments directly in long and short positions in U.S. and international equities and fund-of-fund vehicles employing a variety of strategies but currently concentrated in long/short investing.

(d) *Multi-strategy/absolute return funds* - investments focused on multi-strategy investing including, but not limited to, a variety of arbitrage strategies, distressed investments, private equity, long/short equity, special situations, and convertible hedging. Investments are made directly or through fund allocations.

(e) *Opportunistic fixed income funds* - investments include senior bank loan fixed income securities, emerging market sovereign debt, and mortgage market securities with advantageous price terms resulting from market dislocations.

(f) *Real estate funds* - investments include any interest in or vehicle relating to real estate assets.

(g) *Private equity funds* - investments include private equity, venture capital funds, buyout funds, secondary funds, and direct investments.

In reference to the investments and other financial instruments held by the College, the following provides a brief description of the types of financial instruments, the methodology for estimating fair value, and the level within the hierarchy of the estimate. As mentioned previously, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

1. Investments

Short-term Investments: Short-term investments include primarily certificates of deposits and securities with a maturity of up to one year at the time of purchase (Level 1 in the hierarchy) and Level 3 holdings that primarily include interests in life insurance policies where the College is the beneficiary and the College's equity interest is in an insurance company that serves higher education.

Deposits with Bond and Other Trustees: Deposits with bond trustee include highly liquid investments with varying maturities and investment goals of preserving capital and maintaining daily liquidity. Deposits with bond trustee are reported at fair value which approximates cost and is considered to be Level 1 in the hierarchy. Deposits with other trustee include the College's obligation to provide collateral to the counterparty of its various swap agreements. The amount of the obligation has been removed from cash and cash equivalents and reported in Level 2, the same as the corresponding liability for the interest rate hedge/swap agreements.

NOTE G - FAIR VALUE MEASUREMENTS - Continued

Fixed Income Investments: U.S. dollar denominated, investment grade fixed income securities with quoted prices in active markets. Fixed income investments are considered a Level 1 in the hierarchy.

Fixed Income - Mutual Funds: Mutual funds (open to the general public with quoted prices in active markets) investing in high yielding, non-investment grade publicly traded fixed income securities with quoted prices in active markets. These mutual funds are generally considered to be a Level 1 in the hierarchy. However, certain fixed income mutual funds do not have quoted prices in active markets and are considered to be a Level 2 in the hierarchy.

Fixed Income - Institutional Mutual Funds: Mutual funds (open to institutions only) investing in high yielding, non-investment grade publicly traded fixed income securities with quoted prices in active markets. Fixed income institutional mutual funds are generally considered to be a Level 1 in the hierarchy. However, certain fixed income institutional mutual funds do not have quoted prices in active markets and are considered to be a Level 2 in the hierarchy.

Equity - Stocks: Domestic and/or foreign equity securities with quoted prices in active markets. Equity stocks are considered to be a Level 1 in the hierarchy.

Equity - Mutual Funds: Mutual funds (open to the general public with quoted prices in active markets) investing in domestic and/or foreign equity securities with quoted prices in active markets. Equity mutual funds are generally considered to be a Level 1 in the hierarchy. However, certain equity income mutual funds do not have quoted prices in active markets and are considered to be a Level 2 in the hierarchy.

Equity - Institutional Mutual Funds: Mutual funds (open to institutions only) investing in domestic and/or foreign equity securities with quoted prices in active markets. Equity institutional mutual funds that do not have quoted prices in active markets are considered to be a Level 2 in the hierarchy.

Alternative Investments: Funds and partnerships that invest in a variety of investments to include: private equity, derivatives, real estate, multi-strategy, long/short equities, distressed, and opportunistic fixed income. These investments are considered level 2 if the fair value is estimated using the net asset value per share or other Level 3 within the hierarchy.

2. Interest Rate Hedge/Swap Agreements Liability

The interest rate hedge/swap agreements liability is measured by alternative pricing sources with reasonable levels of price transparency in markets that may not be continuously active. Based on the complex nature of interest rate hedge/swap agreements, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do however have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair market value. These characteristics classify interest rate hedge/swap agreements as a Level 2 input.

NOTE H - SUMMARY OF EXPENSES

Expenses, by natural classification, for the years ended June 30, were as follows:

	2013	2012
Salaries and wages	$ 57,176,376	$ 54,351,128
Benefits	20,511,103	19,916,209
Total compensation	77,687,479	74,267,337
Professional services and contracting	13,112,656	10,931,809
Supplies and minor equipment	5,855,063	4,752,827
Auxiliaries, cost of sales	1,395,355	1,278,235
Utilities	4,413,013	4,522,864
Travel and entertainment	5,642,972	5,442,674
Insurance and taxes	1,595,955	1,755,174
Dining services contract	6,145,855	6,141,307
Printing and copying	845,069	993,519
Repairs and maintenance	612,562	644,297
Telephone and cable	549,767	659,797
Postage	471,519	532,503
Depreciation	13,576,129	13,322,710
Interest	7,221,610	7,348,094
Other	4,295,222	3,817,479
Total expenses	$ 143,420,226	$ 136,410,626

The College expended approximately $4,030,000 and $3,700,000 in the years ended June 30, 2013 and 2012, respectively, for payroll and benefits, informational materials, travel and special events relating to fundraising activities. These costs are all classified as institutional support in the financial statements.

NOTE I - STUDENT LOANS RECEIVABLE CREDIT QUALITY

At June 30, 2013 and 2012, student loans consisted of the following:

	2013	2012
Federal Government Program	$ 2,474,972	$ 2,620,697
Institution Program	2,610,105	2,579,507
	5,085,077	5,200,204
Less allowance for doubtful accounts:		
Beginning of year	(781,375)	(687,375)
Increases	(160,000)	(94,000)
End of year	(941,375)	(781,375)
Student loans receivable, net	$ 4,143,702	$ 4,418,829

(Continued)

NOTE I - STUDENT LOANS RECEIVABLE CREDIT QUALITY - Continued

The College participates in the Federal Perkins revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $2,040,610 and $2,024,586 at June 30, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

At June 30, 2013 and 2012, the following amounts were past due under student loan programs:

June 30,	1-60 days past due	60-90 days past due	90+ days past due	Total past due
2013	$ 6,921	$ 467	$ 461,330	$ 468,718
2012	9,583	554	398,670	408,807

Allowances for doubtful accounts are established for all student loans receivable, including Federal Perkins loans receivable, based on prior collection experience and current economic factors that, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

NOTE J - CONTINGENCIES

1. General

The College is from time to time subject to routine litigation incidental to its business. College counsel believes that existing insurance policies are sufficient, and as such, management believes that pending litigation will not have a material adverse effect on the College's financial position.

2. Lines of Credit

The College has a committed and unsecured line of credit with a financial institution at a maximum borrowing amount of $10,000,000 for working capital needs. This line of credit is periodically renewed and is scheduled to expire on November 30, 2013. The outstanding balance at both June 30, 2013 and 2012 was $-0-. Interest, if funds are drawn, is payable monthly at a floating rate. The College has a depository relationship with this financial institution.

The College has a committed and unsecured line of credit with a second financial institution at a maximum borrowing amount of $20,000,000 for working capital and other potential liquidity-related needs. This line of credit is periodically renewed and is scheduled to expire on February 1, 2014. The outstanding balance at both June 30, 2013 and 2012 was $-0-. Interest, if funds are drawn, is payable monthly at a floating rate. The College also has a depository relationship with this financial institution.

NOTE K - SUBSEQUENT EVENTS

The College evaluated its June 30, 2013 financial statements for subsequent events through October 7, 2013 and has reported the following three items:

1. Long-Term Debt Obligations

In or around October 2013, the College expects to refinance approximately $25,300,000 of its existing variable rate bonds, specifically the Series A and B of 1998 bonds, and a portion of its Series 2006 bonds. The College also expects to borrow an additional $25,000,000 for various capital expenditures and improvements to new and existing College facilities. As of the date of this audit report, the interest rates, maturity dates, and tax status of the proposed debt have not been established; however, it is expected that the borrowing will be structured as a fixed rate, revenue bond to be issued through the Northampton County General Purpose Authority.

2. Deferred Giving Contribution

On August 20, 2013, Rockwell Holdings, Inc. donated 450,000 shares of ExOne stock to a Charitable Remainder Unitrust (CRUT). Lafayette College is the Trustee of the CRUT, and upon the termination of the CRUT, which is August 2023, is the beneficiary of the residual value of the CRUT. During the 10-year term, Rockwell Holdings, Inc. will receive 5% of the annually recalculated market value of the CRUT. Subsequent to the sale of the ExOne shares by the CRUT, and prior to the investment thereof, on September 13, 2013, the cash balance in the CRUT was $26,574,750. The estimated value of the 5% payment for 10 years was $10,560,274, as of the same date, and will be recorded as an annuities payable. The current asset and liability values will change thereafter on the College's statement of financial position.

3. Investment Liquidity

On August 2, 2013, the College was advised by FIDAC and Reich & Tang that the Board of Directors of the US Dollar Floating Rate Fund, Ltd (held in the endowment as Annaly) was advised that it is in the best interests of shareholders to proceed with a plan for an orderly liquidation of the fund's assets, with the subsequent distribution of proceeds. The sale of all assets was completed on August 27, with proceeds settled on September 17. The net asset value (NAV) paid out to clients on September 26 ($1.2701) was substantially similar to the NAV ($1.3000) when the College liquidated one-third of its holdings in July 2013. The daily liquidity of this holding was compromised for approximately seven weeks for the remaining holding of approximately $32 million. Management fees have been waived during the liquidation process.