Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Lafayette College

June 30, 2011 and 2010

Contents

Audit – Tax – Advisory

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Report of Independent Certified Public Accountants

Board of Trustees
Lafayette College

We have audited the accompanying statements of financial position of Lafayette College (the College) as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010 and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, PA

October 5, 2011

Lafayette College

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2011	2010
Cash and cash equivalents	$ 65,319,383	$ 46,719,608
Short-term investments	2,698,512	2,655,394
Accounts and notes receivable, net	1,248,619	1,265,187
Inventories	647,220	578,542
Contributions receivable and bequests in probate, net	12,711,354	11,859,861
Prepaid expenses	1,563,614	1,457,793
Student loans receivable, net	4,394,301	4,213,862
Deposits with bond and other trustees	6,373,678	8,156,262
Long-term investments	665,626,256	597,340,466
Deferred charges, net	1,452,159	1,600,700
Land, buildings and equipment, net of accumulated depreciation	252,919,201	258,866,175
Total assets	$ 1,014,954,297	$ 934,713,850
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 2,821,337	$ 3,597,363
Accrued liabilities	4,709,291	4,084,113
Deposits and deferred revenues	8,408,356	8,842,311
Annuities payable	20,508,939	16,901,496
Postretirement benefits	36,916,000	40,142,000
Federal student loans refundable	2,006,913	2,000,200
Interest rate hedge/swap agreements	11,643,035	12,821,402
Conditional asset retirement obligation	6,041,111	5,753,438
Capitalized lease obligations	89,907	134,945
Bonds payable, net	170,788,606	171,245,904
Total liabilities	263,933,495	265,523,172
Net assets		
Unrestricted - future operations	4,707,101	4,497,471
Unrestricted - allocated for specific purposes	17,108,861	17,040,338
Unrestricted - allocated for long-term investment	138,181,407	105,181,894
Unrestricted - held as charitable gift annuities	607,632	524,444
Unrestricted - invested in plant	77,710,658	84,119,671
Total unrestricted	238,315,659	211,363,818
Temporarily restricted - other funds	9,662,888	5,454,332
Temporarily restricted - endowment and annuity/life income funds	240,214,576	205,941,603
Total temporarily restricted	249,877,464	211,395,935
Total permanently restricted	262,827,679	246,430,925
Total net assets	751,020,802	669,190,678
Total liabilities and net assets	$ 1,014,954,297	$ 934,713,850

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENT OF ACTIVITIES

Year ended June 30, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Student related revenue				
Tuition and fees	$ 94,210,402	$ -	$ -	$ 94,210,402
Sales and services of auxiliaries	25,931,483	-	-	25,931,483
	120,141,885	-	-	120,141,885
Scholarships and fellowships	(34,062,127)	-	-	(34,062,127)
Net student related revenue	86,079,758	-	-	86,079,758
Other revenue				
Government grants and contributions	480,018	179,816	-	659,834
Private gifts and grants	6,973,927	653,285	-	7,627,212
Investment return for operations:				
Endowment return used for spending policy	30,070,520	310,946	-	30,381,466
Other investment return	1,401,320	3,129	-	1,404,449
Other	2,840,536	13,084	-	2,853,620
Net assets released from restriction	1,035,289	(1,035,289)	-	-
Total operating revenue	128,881,368	124,971	-	129,006,339
Operating expenses				
Instruction	48,958,377	-	-	48,958,377
Public service	11,573	-	-	11,573
Research	771,326	-	-	771,326
Academic support	15,872,020	-	-	15,872,020
Student services	25,518,133	-	-	25,518,133
Institutional support	18,844,633	-	-	18,844,633
Scholarships and fellowships	269,081	-	-	269,081
Auxiliary services	22,504,221	-	-	22,504,221
Total operating expenses	132,749,364	-	-	132,749,364
(Decrease) increase in net assets from operating activities	(3,867,996)	124,971	-	(3,743,025)
Nonoperating activities				
Nonoperating investment return:				
Investment return, net of amounts withdrawn for operations and endowment funds with deficiencies	17,213,368	35,630,234	10,698,184	63,541,786
Endowment funds with deficiencies	3,169,000	(3,019,000)	(150,000)	-
Capital gifts	1,939,370	9,813,827	7,348,413	19,101,610
Redesignation of net assets to temporary or permanently restricted	(323,247)	183,702	139,545	-
Change in estimate for annuities payable	4,400	(3,056,300)	(546,100)	(3,598,000)
Distribution to fund annuities payable	-	(618,348)	(1,114,682)	(1,733,030)
Gain on change in termination value of interest rate hedges/swaps agreements	1,178,367	-	-	1,178,367
Reduction of provision for bad debt on contributions receivable	2,613,140	238,876	21,394	2,873,410
Gain on adjustment for experience of postretirement benefits cost	4,605,000	-	-	4,605,000
Loss on disposal of property, plant and equipment	(338,229)	-	-	(338,229)
Other (loss) income	-	(57,765)	-	(57,765)
Net assets released from restriction	758,668	(758,668)	-	-
Increase in net assets from nonoperating activities	30,819,837	38,356,558	16,396,754	85,573,149
Net increase in net assets for the year	26,951,841	38,481,529	16,396,754	81,830,124
Net assets				
Beginning of year	211,363,818	211,395,935	246,430,925	669,190,678
End of year	$ 238,315,659	$ 249,877,464	$ 262,827,679	$ 751,020,802

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENT OF ACTIVITIES

Year ended June 30, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Student related revenue				
Tuition and fees	$ 91,099,094	$ -	$ -	$ 91,099,094
Sales and services of auxiliaries	25,421,263	-	-	25,421,263
	116,520,357	-	-	116,520,357
Scholarships and fellowships	(34,321,966)	-	-	(34,321,966)
Net student related revenue	82,198,391	-	-	82,198,391
Other revenue				
Government grants and contributions	537,846	250,505	-	788,351
Private gifts and grants	8,360,180	401,011	-	8,761,191
Investment return for operations:				
Endowment return used for spending policy	31,170,133	312,142	-	31,482,275
Other investment return	2,432,623	4,780	-	2,437,403
Other	2,791,379	13,108	-	2,804,487
Net assets released from restriction	1,203,299	(1,203,299)	-	-
Total operating revenue	128,693,851	(221,753)	-	128,472,098
Operating expenses				
Instruction	46,083,343	-	-	46,083,343
Public service	107,500	-	-	107,500
Research	856,268	-	-	856,268
Academic support	14,773,627	-	-	14,773,627
Student services	24,450,690	-	-	24,450,690
Institutional support	18,563,412	-	-	18,563,412
Scholarships and fellowships	279,659	-	-	279,659
Auxiliary services	21,886,713	-	-	21,886,713
Total operating expenses	127,001,212	-	-	127,001,212
Increase (decrease) in net assets from operating activities	1,692,639	(221,753)	-	1,470,886
Nonoperating activities				
Nonoperating investment return:				
Investment return, net of amounts withdrawn for operations and endowment funds with deficiencies	9,174,176	26,531,480	5,213,703	40,919,359
Endowment funds with deficiencies	4,376,000	(4,304,000)	(72,000)	-
Capital gifts	2,022,584	617,463	2,795,634	5,435,681
Redesignation of net assets to temporary or permanently restricted	(846,767)	848,767	(2,000)	-
Change in estimate for annuities payable	8,200	(263,500)	122,900	(132,400)
Distribution to fund annuities payable	-	(454,653)	(992,679)	(1,447,332)
Loss on change in termination value of interest rate hedges/swaps agreements	(3,778,439)	-	-	(3,778,439)
Provision for bad debt on contributions receivable	(585,738)	(39,562)	34,038	(591,262)
Loss on early retirement of debt	(519,066)	-	-	(519,066)
Gain on adjustment for funded status of postretirement benefits cost	265,000	-	-	265,000
Gain on adjustment for experience of postretirement benefits cost	3,633,000	-	-	3,633,000
Loss on disposal of property, plant and equipment	(488,407)	-	-	(488,407)
Other (loss) income	898	(60,685)	(2,000)	(61,787)
Net assets released from restriction	311,636	(311,636)	-	-
Increase in net assets from nonoperating activities	13,573,077	22,563,674	7,097,596	43,234,347
Net increase in net assets for the year	15,265,716	22,341,921	7,097,596	44,705,233
Net assets				
Beginning of year	196,098,102	189,054,014	239,333,329	624,485,445
End of year	$ 211,363,818	$ 211,395,935	$ 246,430,925	$ 669,190,678

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2011	2010
Cash flows from operating activities		
Student tuition and fees and auxiliary enterprises	$ 85,937,310	$ 83,144,443
Gifts, grants, and contracts received	11,105,473	8,586,192
Interest and dividends received	10,753,944	11,759,410
Payments to suppliers and employees	(109,585,817)	(104,355,640)
Interest paid	(7,812,906)	(7,298,224)
Income taxes paid	(300)	(1,500)
Payments to beneficiaries	(1,437,652)	(1,203,454)
Income received for annuitants	988,033	988,952
Other receipts	2,500,480	2,787,755
Net cash used in operating activities	(7,551,435)	(5,592,066)
Cash flows from investing activities		
Purchases of land, building and equipment	(6,015,617)	(5,257,158)
Purchases of construction in progress	(3,025,850)	(5,382,414)
Loans distributed to students and faculty	(635,620)	(615,100)
Repayments of loans from students and faculty	413,791	359,476
Purchases of investments	(88,575,717)	(113,683,149)
Proceeds from sales and maturities of investments	107,426,831	123,181,496
Proceeds from sales of property, plant and equipment	1,600	12,133
Receipts of deposits with bond and other trustees	1,782,584	(2,973,954)
Net cash provided by (used in) investing activities	11,372,002	(4,358,670)
Cash flows from financing activities		
Proceeds from issuance of debt	-	26,689,800
Repayment of principal of debt	(295,037)	(22,582,420)
Payments to annuitants	(1,813,024)	(1,749,280)
Increase in federal student loans refundable	6,713	14,945
Payments for bond issuance costs	-	(256,359)
Contributions for investment in endowment and annuities	11,651,846	4,937,383
Contributions for investment in plant facilities	5,228,710	1,530,277
Net cash provided by financing activities	14,779,208	8,584,346
Increase (decrease) in cash and cash equivalents	18,599,775	(1,366,390)
Cash and cash equivalents		
Beginning of year	46,719,608	48,085,998
End of year	$ 65,319,383	$ 46,719,608

(Continued)

Lafayette College

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30,

	2011	2010
Change in net assets	$ 81,830,124	$ 44,705,233
Reconciliation of change in net assets to net cash used in operating activities		
Depreciation	13,289,478	13,117,568
Accretion of interest costs for asset retirement obligations	287,673	274,318
Amortization of bond issuance costs	82,670	77,563
Amortization of net bond discount and premium	(207,299)	(162,563)
Change in allowance for doubtful student accounts, loans and notes	114,679	139,827
Change in allowance for doubtful pledges receivable and bequests in probate	52,820	17,921
Net realized gain on investments	(14,596,069)	(8,826,150)
Net unrealized gain on investments	(69,917,808)	(54,036,211)
Nonoperating loss on interest rate hedges/swaps agreements	(1,178,367)	3,778,439
Nonoperating gain on conditional asset retirement	-	(898)
Nonoperating loss on early retirement of debt	-	519,066
Nonoperating gain on adjustment for funded status of postretirement benefits cost	-	(265,000)
Nonoperating gain on adjustment for experience of postretirement benefits cost	(4,605,000)	(3,633,000)
Nonoperating (gain) loss on change of allowance or write-off of pledge receivable	(2,873,410)	591,262
Nonoperating loss on land, building and equipment disposals	339,829	500,540
Nonoperating contributions restricted for long-term investment	(15,348,066)	(6,586,472)
Nonoperating distribution to fund annuities payable	(1,733,030)	(1,447,332)
Changes in assets and liabilities		
Decrease in short-term investments	850,126	487,130
Increase in accounts and notes receivable, net	(82,111)	(281,906)
Increase in inventories	(68,678)	(35,671)
Increase in contributions receivable and bequests in probate	(365,787)	(194,693)
Increase in prepaid expenses	(105,821)	(15,124)
Decrease in deferred charges	65,871	70,488
Increase in accounts payable, accrued liabilities and annuities payable	6,422,412	3,516,073
(Decrease) increase in deposits and deferred revenues	(702,110)	867,893
Increase in postretirement benefits	1,379,000	2,244,000
(Decrease) increase in interest rate hedge/swap agreements	(128)	3,263
Other nonoperating activity	(482,433)	(1,017,630)
Net cash used in operating activities	$ (7,551,435)	$ (5,592,066)
Supplemental cash flow data		
Noncash transactions:		
Amounts included in accounts payable and accrued liabilities for purchase of land, buildings and equipment	$ 204,586	$ (637,265)
Capital lease obligation	51,909	51,909

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 2,328 and 2,346 full-time students, of which approximately 87% lived on campus for the years ended June 30, 2011 and 2010, 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:

- Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets. Such assets primarily include the College's permanent endowment funds.

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

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

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

Contributions and investment return with donor-imposed restrictions that are met in the same year as received are recorded as unrestricted revenues. Other 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 reported as temporarily restricted revenues. These contributions are reclassed to unrestricted net assets upon acquisition of the assets.

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 $922,000 and $827,000 at June 30, 2011 and 2010, respectively.

4. Contributions Receivable and Bequests in Probate

At June 30, 2011, the estimated present value of contributions receivable and bequests in probate are shown below. The discount rates range from 1.75% to 6.00%.

	2011			
	Less than one year	One to five years	Six to ten years	Total
Pledges of gifts	$ 5,743,522	$ 5,695,661	$ 131,171	$ 11,570,354
Bequests in probate	1,141,000	-	-	1,141,000
	$ 6,884,522	$ 5,695,661	$ 131,171	$ 12,711,354

Contributions receivable and bequests in probate are reported net of provisions for doubtful accounts and discounts. The provision for doubtful accounts was $1,162,000 and $4,002,600 and discounts were $463,600 and $602,500 at June 30, 2011 and 2010, respectively. The provision is intended to provide for contributions receivable and bequests in probate that may not be collected. At June 30, 2011, the College had also received conditional promises to give of approximately $5,945,000. These conditional promises to give are not recognized until they become unconditional, that is, when the condition on which they depend is substantially met.

5. Student Loans Receivable

Student loans receivable are reported net of allowance for doubtful loans. The allowance for doubtful loans was $687,000 and $671,000 at June 30, 2011 and 2010, 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.

A reasonable estimate of fair value of student loans receivable under government loan programs is not made, because the notes are not transferable to outside parties and can only be assigned to the U.S. Government or its designees. Also see Note J.

6. Allowances for Doubtful Accounts

The allowances for doubtful accounts are provided based upon management's judgment, including such factors as prior collection history and type of receivable. The College writes-off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the provision for doubtful accounts.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

8. Investments

The College records investments at fair value. The average cost of investment securities is used to determine the basis for computing realized and unrealized gains and losses. Debt securities, equity securities and certain mutual funds are valued at quoted market prices. The College also invests in a variety of alternative investments. Such investments are accounted for at estimated fair value based on net asset value as a practical expedient, and are disclosed in the aggregate as "Alternative Investments" in Note C.

9. Split-Interest Agreements

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

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 separate line item on the statements of activities. At June 30, 2011 and 2010, the liability associated with split-interest agreements was $20,508,939 and $16,901,496, respectively, and is recorded as annuities payable in the statements of financial position.

At June 30, 2011 and 2010, the fair value of such assets for split-interest agreements was $42,060,549 and $33,487,202, respectively, and is recorded, as applicable, in cash and cash equivalents and long-term investments in the statements of financial position. At June 30, 2011 and 2010, the cost was $38,410,291 and $34,449,195, respectively.

10. 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
Buildings	40
Rental properties; systems and improvements	25
Equipment, library books and vehicles	5

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2011 and 2010 is $2,455,034 and $2,317,234, respectively.

Capitalized interest has been recognized at the total interest cost of the borrowings less any interest earned on the short-term investment of the proceeds of the borrowings, from the date of borrowing until the acquired assets are ready for their intended use. Capitalized interest, net, was $-0- in each year for the years ended June 30, 2011 and 2010.

11. 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 at June 30, 2011 and 2010 in the amounts of $4,730,643 and $5,334,860, respectively. This category also includes the collateral obligation to the counterparty under the College's various interest rate hedges/swaps agreements as described in Note E9. Such obligation at June 30, 2011 and 2010 was $1,643,035 and $2,821,402, respectively, and reduces cash and cash equivalents on the statements of financial position.

12. Deposits and Deferred Revenues

Deposits primarily include amounts held for various student and alumni organizations. Deferred revenues relate to tuition and matriculation deposits and other payments for the upcoming fall semester that are received prior to fiscal year-end.

13. 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 J.

14. Interest Rate Hedge/Swap Agreements

Interest rate hedges/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. Gains or losses resulting from changes in the fair values of the interest rate hedges/swap agreements have historically been reported by the College as nonoperating gains or losses. The College's management prepares its budgets assuming the net payments to the counterparty 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 in the categories of Instruction, Student Services and Auxiliary Services. Also see Note E9.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Generally accepted accounting principles provide that payments to/receipts from the counterparty may also be reported as other income, and other operating expense allocable to the various functional categories or a nonoperating gain or loss instead of as operating interest expense. For the year ended June 30, 2011, if the College reclassified the net payments to/from the counterparty as a nonoperating loss rather than as operating interest expense, then total operating expenses would have decreased by $2,038,953 and the nonoperating gain would have decreased by this same amount, resulting in a nonoperating loss of $860,586. In this case, operating revenues are not affected by this reclassification, but total operating expenses would decrease to $130,710,411 and the decrease in net assets from unrestricted operating activities would decrease to $1,829,043. The total increase in net assets for the fiscal year would remain unchanged at $81,830,124.

Also see Note A25 for the effect of reclassifying the net payments to the counterparty for the year ended June 30, 2010. Had the College not reclassified these payments as operating interest expense, total operating expenses for the year ended June 30, 2010 would decrease by $1,015,182 to $125,986,030 and the nonoperating loss would increase to $4,793,621. The increase in net assets from unrestricted operating activities would increase to $2,707,821. The total increase in net assets for the fiscal year would remain unchanged at $44,705,233.

15. 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. The College records a liability to perform the asset retirement activity. The liability was $6,041,111 and $5,753,438 for the years ended June 30, 2011 and 2010, respectively. Included in the balance at June 30, 2011 is $287,673 for accretion of interest and $-0- of new liabilities related to conditional asset retirement obligations recognized during the year ended June 30, 2011. Included in the balance at June 30, 2010 is $274,318 for accretion of interest and $-0- of new liabilities related to conditional asset retirement obligations recognized during the year ended June 30, 2010.

16. Net Student Tuition and Fees

Net student tuition revenue is reported at net realizable amounts received from students. Net student tuition and fees are reported net of institutional students' aid.

17. 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, capital gifts, change in annuities payable, and change in the value of interest rate hedges/swaps agreements, allowance for uncollectible nonoperating pledges receivable, adjustments to the conditional asset retirement obligation, adjustments of a nonoperating nature to the postretirement benefit liability and other activities considered by management to be more of a nonoperating nature.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

18. 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.

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. The College estimates an income tax liability of $450,000 for the Form 990-T for the year ended June 30, 2011, of which $139,281 has been prepaid as of June 30, 2011. The College's federal and state income taxes for the year ended June 30, 2010 were $300.

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.

The College also pays real estate and other similar taxes to various local jurisdictions for certain College-owned properties. Real estate taxes expense was approximately $619,800 and $589,200 for the years ended June 30, 2011 and 2010, respectively.

20. Advertising

The College charges the costs of advertising to expense as incurred. Advertising expense was approximately $96,600 and $82,000 for the years ended June 30, 2011 and 2010, 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 designating previously temporarily restricted contributions for permanently restricted endowment.

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 in probate; 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. This guidance is effective for financial statements issued for periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for reporting periods beginning after December 15, 2010. The adoption of this guidance, with the exception of the enhanced Level 3 disclosures, which will be adopted the fiscal year ended June 30, 2012, did not have a material impact on the financial statements.

In July 2010, the FASB issued guidance to enhance disclosures about the credit quality of a creditor's financing receivables and the adequacy of its allowance for credit losses. The College adopted this guidance in the current year, auditing its disclosures as required. See Note J.

25. 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 and resulted in a $506,992 net decrease in unrestricted net assets from operating activities, with a corresponding increase to net assets from unrestricted nonoperating activities. This $506,992 net decrease relates to the $508,190 reallocation of unrestricted investment return from nonoperating to operating endowment return used for spending policy and a $1,015,182 reallocation from nonoperating to operating interest expense (specifically the categories of Instruction ($147,979), Student Services ($673,640) and Auxiliary Services ($193,563)) for net payments to the counterparty under the College's various interest rate hedge/swap agreements.

NOTE B - LAND, BUILDINGS AND EQUIPMENT

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

	2011	2010
Land	$ 4,035,752	$ 3,987,752
Buildings	317,720,103	316,434,947
Equipment, library books and works of art	74,256,188	69,619,832
Improvements	35,168,748	34,379,809
Construction in progress	4,607,344	4,167,417
	435,788,135	428,589,757
(Less) accumulated depreciation	(182,868,934)	(169,723,582)
	$ 252,919,201	$ 258,866,175

Depreciation expense for the years ended June 30, 2011 and 2010 was $13,289,478 and $13,117,568, respectively. Estimated outstanding construction contract commitments at June 30, 2011 are $8,200,000.

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 securities with maturities of up to three years at the time of purchase. The cost of short-term securities at June 30, 2011 and 2010 is $2,647,014 and $2,597,981, respectively. The fair value of short-term investments is approximately $2,698,512 and $2,655,394 at June 30, 2011 and 2010, respectively.

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

	2011		2010	
	Fair value	Cost	Fair value	Cost
Fixed income				
Fixed income investments	$ 8,370,200	$ 7,620,669	$ 45,776,114	$ 41,633,560
Fixed income mutual funds	8,973,756	6,167,565	7,661,633	5,621,307
Institutional mutual funds	44,193,265	51,641,644	58,776,522	67,407,763
Total fixed income	61,537,221	65,429,878	112,214,269	114,662,630
Equity				
Stocks	57,152,730	50,148,262	23,066,381	24,002,890
Mutual funds	116,533,219	103,871,026	68,544,180	71,355,108
Institutional mutual funds	67,209,459	56,236,222	52,674,947	57,346,516

(Continued)

NOTE C - INVESTMENTS - Continued

	2011		2010	
	Fair value	Cost	Fair value	Cost
Alternative investments				
Long/short equity	$ 78,289,181	$ 56,489,452	$ 90,525,924	$ 69,548,958
Multi-strategy/absolute return	103,473,421	63,372,276	75,208,577	50,825,795
Event driven/distressed	30,403,222	8,050,042	38,297,593	18,172,507
Opportunistic fixed income	41,434,962	25,902,641	48,580,136	34,218,836
Real estate	36,675,628	38,129,565	33,830,974	35,776,467
Private equity	72,917,213	62,022,097	54,397,485	55,590,468
Total alternative investments	363,193,627	253,966,073	340,840,689	264,133,031
	$ 665,626,256	$ 529,651,461	$ 597,340,466	$ 531,500,175

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 estimated 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, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

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, 2011, the largest alternative investment exposure to any product and/or manager was 8.59% of total long-term investments, which reflected a fund-of-funds allocation.

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 a 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.

(Continued)

NOTE C - INVESTMENTS - Continued

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, 2011 as shown below:

Expected liquidity availability	Non-alternative investments	Alternative investments	Total
Daily	$ 198,627,334	$ -	$ 198,627,334
Within 30 days	85,041,315	-	85,041,315
31-90 days	15,609,198	84,594,866	100,204,064
91-365 days	-	110,040,218	110,040,218
More than 365 days	3,154,782	168,558,543	171,713,325
Total	$ 302,432,629	$ 363,193,627	$ 665,626,256

Under the terms of certain limited partnership agreements, the College is obligated to periodically advance additional funding or capital calls. At June 30, 2011 and 2010, the College made commitments of approximately $122,500,000 and $119,500,000, respectively, to provide funding to limited partnerships. At June 30, 2011 and 2010, advances of $101,807,692 and $91,300,200, respectively, had been satisfied and included in the long-term investments in the statements of financial position, leaving balances of $20,692,308 and $28,199,800, respectively, to be advanced.

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

	2011	2010
Interest income and dividends	$ 10,813,824	$ 11,976,676
Realized gains, net	14,596,069	8,826,150
Change in unrealized gains, net	69,917,808	54,036,211
	$ 95,327,701	$ 74,839,037

(Continued)

NOTE C - INVESTMENTS - Continued

Investment return gains (losses), as shown on the statements of activities, are allocated between operating and nonoperating based on the applicable spending rate and funding for the annual increase in postretirement benefits other than pensions (included as operating - other investment return) and were allocated as follows:

	2011	2010
Operating		
Unrestricted - endowment return used for spending policy	$ 30,070,520	$ 31,170,133
Unrestricted - other	1,401,320	2,432,623
Temporarily restricted	314,075	316,922
	31,785,915	33,919,678
Nonoperating		
Unrestricted - other	20,382,368	13,550,176
Temporarily restricted	32,611,234	22,227,480
Permanently restricted	10,548,184	5,141,703
	63,541,786	40,919,359
	$ 95,327,701	$ 74,839,037

NOTE D - ENDOWMENTS

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 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. The endowment includes donor-restricted endowment funds and endowment funds designated by the Board of Trustees to function as quasi-endowments, plus the following where the assets have been designated for endowment: pledges receivable, split-interest agreements and other net assets.

1. Interpretation of Relevant Law

While other interpretations of Commonwealth of Pennsylvania Act 141 are possible, the Board of Trustees of the College has interpreted Commonwealth of Pennsylvania 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

(Continued)

NOTE D - ENDOWMENTS - Continued

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 Pennsylvania Act 141 are possible. These alternative interpretations include the possibility that deficiencies below the "historic dollar value" could be charged to permanently restricted net assets rather than unrestricted net assets as reported. See also Note D2 below.

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, 2011, the cumulative charge to unrestricted net assets for the deficiencies was $1,496,000, with corresponding cumulative credits to permanently restricted net assets and temporarily restricted net assets of $191,000 and $1,305,000, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

For the year ended June 30, 2011, investment market conditions produced a positive return for the College, and the deficiency of $4,665,000 as of June 30, 2010 was reduced by $3,169,000 to $1,496,000. As a result, $3,169,000 was credited to unrestricted net assets, of which $150,000 was charged to permanently restricted net assets and $3,019,000 was charged to temporarily restricted net assets. For the year ended June 30, 2010, $4,376,000 was credited to unrestricted net assets, with corresponding charges of $72,000 to permanently restricted net assets and $4,304,000 to temporarily restricted net assets. See Note D7.

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 investment and cash assets, including endowment 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 other net assets.

4. Endowment Spending Policy

For the years ended June 30, 2011 and 2010, the College had a two-tiered spending policy (6% for scholarships and 5% for all other endowment accounts).

(Continued)

NOTE D - ENDOWMENTS - Continued

Under this policy, funds were withdrawn from the realized gains earned in prior years if the realized gains received in the current year were less than the spending limit. For the years ended June 30, 2011 and 2010, prior years' realized gains of $8,708,268 and $13,584,187, respectively, were withdrawn.

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 in accordance with Act 141, using the trailing twelve quarters 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 a spending percentage of 5.48% and 5.41% for 2011 and 2010, respectively.

Due to the significant decrease in the market value of endowment investments experienced during 2008, the calculation of the draw using the model market value for the years ended June 30, 2011 and 2010 was suspended and the operating endowment return used for the spending policy for 2011 was reduced by approximately 3.54% from the operating endowment return used for the spending policy for 2010.

In October 2010, the College's Board of Trustees approved a change to the calculation of the draw from the endowment that can be used in support of operations. Effective with fiscal year 2011-12, the model market value formula will be eliminated in favor of a base calculated from the 36-month weighted-average market value ending as of the previous December (e.g., for fiscal year 2011-12, the calculation will be based on the 36 months ending December 31, 2010).

In addition, the spending formula rate for the Scholarship Pool will be reduced over a few years or more from 6.00% to 5.00%, beginning with fiscal year 2011-12.

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). Previously, the College determined that a good practice was to outsource the management and principal due diligence functions of the endowment rather than internally manage the investment portfolio. Two consultants have been hired to assist the Committee on Investments and the Board of Trustees. 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 some volatility consistent with a goal of generating absolute return.

6. Pooled Funds

Endowment and similar funds' assets are pooled on the market-value-unit method whenever possible. Funds are added to or withdrawn from the endowment pools based on the unit market value at the end of the fiscal quarter just prior to the fiscal quarter in which the transaction occurs.

(Continued)

NOTE D - ENDOWMENTS - Continued

The College's Endowment Pool is split into two separate pools. The Associated Pool is used for all pooled endowment activity not related to scholarships, with the Scholarship Pool used for all endowment activity related to scholarships. Each of the two pools has its own spending formula rate and unit market value.

Below is a summary of the change in relationship between cost and market value for the Associated Pool and the Scholarship Pool:

	Number of units	Associated Pool Market	Associated Pool Cost	Net cumulative gains	Market value per unit
June 30, 2011	596,599	$ 425,837,163	$ 339,417,653	$ 86,419,510	$ 713.77
June 30, 2010	579,391	374,533,392	331,921,264	42,612,128	646.43
Unrealized net gains for the year ended June 30, 2011				43,807,382	
Realized net losses for the year ended June 30, 2011 - after spending formula allocations				(4,315,789)	
Total net gains for the year ended June 30, 2011				$ 39,491,593	$ 67.34

The annual earnings per average unit outstanding, exclusive of net realized gains, amounted to $11.18 or 1.62% of average market value. Total annual distribution per average unit outstanding, including realized gains appropriated for operations, amounted to $34.12 or 4.95% of average market value.

For the year ended June 30, 2010 for the Associated Pool, unrealized net gains for the year were $34,574,439. Realized net losses - after spending formula allocations for the year ended June 30, 2010 were $9,824,773, and total net gains were $24,749,666. The net gain in market value per unit for the Associated Pool was $43.74.

	Number of units	Scholarship Pool Market	Scholarship Pool Cost	Net cumulative gains	Market value per unit
June 30, 2011	199,266	$ 133,959,908	$ 105,650,292	$ 28,309,616	$ 672.27
June 30, 2010	191,589	117,096,008	102,082,315	15,013,693	611.19
Unrealized net gains for the year ended June 30, 2011				13,295,923	
Realized net losses for the year ended June 30, 2011 - after spending formula allocations				(1,430,922)	
Total net gains for the year ended June 30, 2011				$ 11,865,001	$ 61.08

(Continued)

NOTE D - ENDOWMENTS - Continued

The annual earnings per average unit outstanding, exclusive of net realized gains, amounted to $10.40 or 1.60% of average market value. Total annual distribution per average unit outstanding, including realized gains appropriated for operations, amounted to $39.80 or 6.11% of average market value.

For the year ended June 30, 2010 for the Scholarship Pool, unrealized net gains for the year were $10,903,117. Realized net losses - after spending formula allocations for the year ended June 30, 2010 were $3,475,664, and total net gains were $7,427,453. The net gain in market value per unit for the Scholarship Pool was $39.52.

The College also operates separate investment pools for its charitable gift annuity agreements (market value at June 30, 2011 and 2010 was $10,204,473 and $9,611,318, respectively) and its pooled life income funds (market value at June 30, 2011 and 2010 was $738,031 and $685,605, respectively).

7. Endowment Fund Activity for the Years Ended June 30, 2011 and 2010

July 1, 2010	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted endowment funds	$ -	$ 205,941,603	$ 246,430,925	$ 452,372,528
Board-designated funds	119,349,550	-	-	119,349,550
	$ 119,349,550	$ 205,941,603	$ 246,430,925	$ 571,722,078
Net assets, beginning of year	$ 119,349,550	$ 205,941,603	$ 246,430,925	$ 571,722,078
Investment return				
Investment income	890	493,517	142,777	637,184
Net realized gains	6,209,194	9,037,015	717,592	15,963,801
Net unrealized gains	20,470,383	37,803,128	11,650,212	69,923,723
Net investment gain	26,680,467	47,333,660	12,510,581	86,524,708
Contributions	563,727	5,222,500	7,348,413	13,134,640
Appropriation of endowment assets for operations (draw)	(8,088,099)	(11,703,426)	-	(19,791,525)
Income distributed or drawn on permanently restricted endowments	-	-	(1,812,397)	(1,812,397)
Transfer of net assets released from restrictions - income purpose satisfied	-	(12,050)	-	(12,050)

(Continued)

NOTE D - ENDOWMENTS - Continued

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Other changes				
Change of donor intent	$ -	$ 183,702	$ 139,545	$ 323,247
Deficiencies in historical values	3,169,000	(3,019,000)	(150,000)	-
Change in estimate for annuities payable	4,400	(3,056,300)	(546,100)	(3,598,000)
Distribution to fund annuities payable	-	(618,348)	(1,114,682)	(1,733,030)
Provision for bad debt on contributions receivable	-	-	21,394	21,394
Operating transfers and other changes	4,866,587	(57,765)	-	4,808,822
Total other changes	8,039,987	(6,567,711)	(1,649,843)	(177,567)
Net assets, end of year	$ 146,545,632	$ 240,214,576	$ 262,827,679	$ 649,587,887
June 30, 2011				
Donor restricted endowment funds	$ -	$ 240,214,576	$ 262,827,679	$ 503,042,255
Board-designated funds	146,545,632	-	-	146,545,632
	$ 146,545,632	$ 240,214,576	$ 262,827,679	$ 649,587,887
July 1, 2009				
Donor restricted endowment funds	$ -	$ 183,841,835	$ 239,333,329	$ 423,175,164
Board-designated funds	103,391,666	-	-	103,391,666
	$ 103,391,666	$ 183,841,835	$ 239,333,329	$ 526,566,830

(Continued)

NOTE D - ENDOWMENTS - Continued

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 103,391,666	$ 183,841,835	$ 239,333,329	$ 526,566,830
Investment return				
Investment income	891	564,112	223,500	788,503
Net realized gains	2,214,768	3,922,071	2,760,062	8,896,901
Net unrealized gains	16,035,471	33,958,641	3,805,738	53,799,850
Net investment gain	18,251,130	38,444,824	6,789,300	63,485,254
Contributions	204,097	165,740	2,795,634	3,165,471
Appropriation of endowment assets for operations (draw)	(9,087,312)	(11,913,344)	-	(21,000,656)
Income distributed or drawn on permanently restricted endowments	-	-	(1,575,597)	(1,575,597)
Transfer of net assets released from restrictions - income purpose satisfied	-	(12,050)	-	(12,050)
Other changes				
Change of donor intent	-	497,436	(2,000)	495,436
Deficiencies in historical values	4,376,000	(4,304,000)	(72,000)	-
Change in estimate for annuities payable	8,200	(263,500)	122,900	(132,400)
Distribution to fund annuities payable	-	(454,653)	(992,679)	(1,447,332)
Provision for bad debt on contributions receivable	-	-	34,038	34,038
Operating transfers and other changes	2,205,769	(60,685)	(2,000)	2,143,084
Total other changes	6,589,969	(4,585,402)	(911,741)	1,092,826
Net assets, end of year	$ 119,349,550	$ 205,941,603	$ 246,430,925	$ 571,722,078
June 30, 2010				
Donor restricted endowment funds	$ -	$ 205,941,603	$ 246,430,925	$ 452,372,528
Board-designated funds	119,349,550	-	-	119,349,550
	$ 119,349,550	$ 205,941,603	$ 246,430,925	$ 571,722,078

NOTE E - LONG-TERM OBLIGATIONS

Long-term obligations at June 30 are summarized as follows:

	2011	2010
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 2006	14,100,000	14,100,000
Northampton County General Purpose Authority, College Refunding and Revenue Bonds, Series 2008	97,647,676	98,071,657
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	4,360,930	4,394,247
Total bonds payable	170,788,606	171,245,904
Capitalized lease obligations	89,907	134,945
Total long-term obligations	$ 170,878,513	$ 171,380,849

At June 30, 2011 and 2010, the College's bonds payable are included in the statements of financial position in the amount of $170,788,606 and $171,245,904, respectively, net of unamortized premium of $1,803,606 and $2,010,904 as of June 30, 2011 and 2010, respectively.

Under the terms of its various debt documents, the College is required to comply with various financial covenants associated with these bonds.

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 County 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 and construction and equipping of an attached intramural/recreation facility, to finance a portion of the construction of and renovations to certain academic facilities and to finance bond issuance costs.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

At June 30, 2011 and 2010, 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 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 (also see Note L2). 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, 2011 and 2010, the variable rates per annum were 0.06% and 0.24%, respectively. Using the interest rate at June 30, 2011, annual interest payments are estimated at $10,900 through the fiscal year ending June 30, 2028 and $3,600 for the fiscal 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 County Authority and the College. The County 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 County Authority in the amount of $6,800,000. The 1998 B Bonds were to finance a portion of the construction of and renovations to certain academic facilities and to finance bond issuance costs.

At both June 30, 2011 and 2010, 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 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 (also see Note L2). 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, 2011 and 2010, rates per annum were 0.06% and 0.24%, respectively. Using the interest rate at June 30, 2011, annual interest payments are estimated at $2,400 through the fiscal year ending June 30, 2028 and $800 for the fiscal year ending June 30, 2029.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

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 County Authority and the College. The County 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 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 both June 30, 2011 and 2010, 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 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 (also see Note L2). 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, 2011 and 2010, rates per annum were 0.06% and 0.24%, respectively. Using the interest rate at June 30, 2011, annual interest payments are estimated at $6,100 through the fiscal year ending June 30, 2023 and $2,000 for the fiscal 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, 2011 and 2010, net payments of $414,690 and $416,493, respectively, were made to the counterparty and are included as operating interest expense in the statements of activities. See Note E9.

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 Authority and the College. The County General 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

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

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 Northampton County General Purpose Authority (the County General Authority) in the amount of $15,100,000. The 2006 Bonds were used by the College for the purpose of undertaking the renovation and construction of the College's football facilities, including the relocation of the track to Metzgar Fields.

At June 30, 2011 and 2010, 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 (also see Note L2). 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, 2011 and 2010, the interest rate per annum was 0.06% and 0.24%, respectively. Using the interest rate at June 30, 2011, annual interest payments are estimated at $8,500 through the fiscal year ending June 30, 2036 and $2,800 for the fiscal 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, 2011 and 2010, net payments of $399,410 and $395,978, respectively, were made to the counterparty and are included as operating interest expense in the statements of activities. See Note E9.

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 Authority and the College. The County General 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.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

5. Series of 2008

On August 21, 2008, the Lafayette College Refunding and Revenue Bonds Series 2008 (the 2008 Bonds) were issued by the Northampton County General Purpose Authority (the County General 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, 2011 and 2010, the 2008 Bonds are included in the statements of financial position at $97,647,676 and $98,071,657, respectively, including a net unamortized premium as of June 30, 2011 and 2010 of $1,442,676 and $1,616,657, respectively, that will be amortized as a credit to interest expense over the life of the issue.

The 2008 Bonds bear interest at rates ranging from 3.25% to 5.00% with maturities from November 1, 2009 through November 1, 2034. The combined debt service payments, which consist of principal and interest, on the 2008 Bonds for the years ended June 30, 2011 through June 30, 2015 approximates $4,907,000, $4,899,000, $4,891,000, $4,882,000 and $4,873,000, respectively. The combined debt service thereafter approximates $156,883,000.

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 Authority and the College. The County General 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 Northampton County General Purpose Authority (the County General 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, 2010, the 2010 A Bonds are included in the statements of financial position at the 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 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 2012. 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 2012 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, 2011, the interest rate per annum was 0.04%. Using the interest rate at June 30, 2011, annual interest payments are estimated at $8,900 through the fiscal year ending June 30, 2029 and $7,400 for the fiscal 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, 2011 and 2010, net payments of $1,224,853 and $202,711, respectively, were made to the counterparty and are included as operating interest expense in the statements of activities. See Note E9.

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 Authority and the College. The County General 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 Northampton County General Purpose Authority (the County General Authority) in the amount of $4,000,000. The 2010 B Bonds were used by the College for the purpose of the funding of various capital projects and improvements.

At June 30, 2011 and 2010, the 2010 B Bonds are included in the statements of financial position at $4,360,930 and $4,394,247, respectively, including an unamortized premium of $360,930 and $394,247, respectively, that will be amortized as a credit to interest expense over the life of the issue.

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 ended June 30, 2022.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

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 Authority and the College. The County General 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. Capitalized Lease Obligations

The College also entered into two five-year capital leases for reprographic equipment. The capitalized lease obligations are collateralized by the related property and equipment. A summary of minimum lease payments as of June 30, 2011 follows:

Year ended June 30, 2012	$ 95,167
Less amount representing interest	(5,260)
Present value of net minimum lease payments	$ 89,907

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

Year ending June 30:	
2012	$ 297,816
2013	292,091
2014	250,000
2015	250,000
2016	250,000
2017	250,000
2018	250,000
2019	21,150,000
2020	-
2021	-
2022 - 2037	146,085,000
	169,074,907
Unamortized bond premium	1,803,606
	$ 170,878,513

Total interest expense on long-term obligations, net of investment income from deposits with bond trustee and capitalized interest, totaled $5,664,597 and $6,441,922 for the years ended June 30, 2011 and 2010, respectively.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

9. Derivative Instruments - Interest Rate Hedges/Swaps Agreements

At June 30, 2011, 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 hedges/swaps 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.

Gains or losses resulting from changes in the fair values of the interest rate hedges/swaps 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 statement of activities in the categories of Instruction, Student Services and Auxiliary Services. For the years ended June 30, 2011 and 2010, net payments to the counterparty were $2,038,953 and $1,015,182, 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 transferred 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.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

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.

Accordingly, as of June 30, 2011 and June 30, 2010, the required collateral amounts of $1,643,035 and $2,821,402, respectively, were reclassified on the statements of financial position from cash and cash equivalents and presented on the line deposits with bond and other trustees. The following tables provide details as cash flow hedging instruments ($ amounts below in thousands):

Swap	Location on statement of financial position	Fair value liability June 30, 2011	Notional amount outstanding	Rate paid	Rate received	Average rate received in fiscal 2011	Counterparty
2010	Int rate hedges	$ 7,860	$ 22,290	6.000%	SIFMA + 0.25%	0.50%	UBS
2006	Int rate hedges	2,195	11,000	3.880	% of LIBOR	0.28	UBS
2003	Int rate hedges	1,588	10,190	4.339	SIFMA	0.30	UBS
		$ 11,643	$ 43,480				

The table below presents the net payments to the counterparty for each Swap Contract for the years ended June 30, 2011 and 2010:

	2003 Swap	2004/ 2006 Swap	2010 Swap	Totals
Year ended June 30, 2011	$ 414,690	$ 399,410	$ 1,224,853	$ 2,038,953
Year ended June 30, 2010	416,493	395,978	202,711	1,015,182

The exchange and net payments to the counterparty for the 2010 Swap commenced in May 2010. See Note E6. Twelve months of net payments were made to the counterparty during the fiscal year ended June 30, 2011, and two months of net payments were made to the counterparty during the fiscal year ended June 30, 2010.

(Continued)

NOTE E - LONG-TERM OBLIGATIONS - Continued

The reported termination liabilities, totaling $11,643,035 as of June 30, 2011, 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. The table also includes the College's net payments made to the Counterparty in accordance with each Swap Contract for each of the years ending June 30, 2011 and 2010.

	2003 Swap	2004/ 2006 Swap	2010 Swap	Subtotal Swaps	2000 Swaption	Totals
Termination liabilities						
June 30, 2009	$ 1,068,018	$ 2,081,520	$ -	$ 3,149,538	$ 5,893,425	$ 9,042,963
Commencement of swap contract						
(option) May 1, 2011	-	-	5,893,425	5,893,425	(5,893,425)	-
Nonoperating fair value loss	616,042	588,746	2,573,651	3,778,439	-	3,778,439
Termination liabilities						
June 30, 2010	1,684,060	2,670,266	8,467,076	12,821,402	-	12,821,402
Nonoperating fair value loss (gain)	(95,769)	(475,506)	(607,092)	(1,178,367)	-	(1,178,367)
Termination liabilities						
June 30, 2011	$ 1,588,291	$ 2,194,760	$ 7,859,984	$ 11,643,035	$ -	$ 11,643,035

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, 2011 and 2010 amounted to approximately $4,336,000 and $4,223,300, 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.

(Continued)

NOTE F - BENEFIT PLANS - Continued

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

	2011	2010
Accumulated postretirement benefit obligation (APBO)		
Retirees and spouses	$ 14,180,000	$ 14,660,000
Other fully eligible participants	15,544,000	15,667,000
Other active plan participants not yet fully eligible	7,192,000	9,815,000
Accumulated postretirement benefit obligation	$ 36,916,000	$ 40,142,000

Net periodic postretirement benefit cost for the years ended June 30, 2011 and 2010 included the following components:

	2011	2010
Service cost - benefits attributed to service during the period	$ 361,000	$ 446,000
Interest cost on accumulated postretirement benefit obligation	2,002,000	2,568,000
Amortization of unrecognized net loss	-	265,000
Net periodic postretirement benefit cost	2,363,000	3,279,000
Net benefit payments	(984,000)	(1,035,000)
Net change in accrued postretirement benefit costs	1,379,000	2,244,000
Current year adjustments	-	(265,000)
Experience gains	(4,605,000)	(3,633,000)
Net change in accrued postretirement benefit obligation	$ (3,226,000)	$ (1,654,000)

A 7.00% annual rate of increase in the per capita costs of covered health care benefits was assumed for 2012 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, 2011 by $5,366,000 and increase the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for 2011 by $427,000. A discount rate of 5.75% was used to determine the APBO for June 30, 2011, and a discount rate of 5.50% was used to determine the accumulated postretirement obligation for June 30, 2010.

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, 2011, the corresponding cumulative credit was $1,941,000, and at June 30, 2010, the corresponding cumulative charge was $2,664,000.

(Continued)

NOTE F - BENEFIT PLANS - Continued

For the years ended June 30, 2011 and 2010, the net periodic postretirement benefits cost includes $-0- and $265,000, respectively, for the amortization of a portion of the unrecognized loss resulting from the difference between the APBO and the cumulative accrued periodic postretirement benefits. Accordingly, for the years ended June 30, 2011 and 2010, gains of $-0- and $265,000, respectively, are included in unrestricted nonoperating net assets. In addition, at June 30, 2011 and 2010, gains from past experience of $4,605,000 and $3,633,000, respectively, have been recognized and are deducted from the APBO.

Projected benefit payments are as shown below:

Year ended June 30:	
2012	$ 1,328,000
2013	1,453,000
2014	1,562,000
2015	1,678,000
2016	1,793,000
2017 - 2021 (five years inclusive, in total)	10,720,000
	$ 18,534,000

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.

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

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.

The following tables present information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010 and indicate the fair value hierarchy of the valuation techniques utilized by the College to determine such fair value.

June 30, 2011

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	$ 65,319,383	$ -	$ -	$ 65,319,383
Short-term investments	2,031,398	-	667,114	2,698,512
Deposits with bond and other trustees	4,730,643	1,643,035	-	6,373,678
Fixed income investments	8,370,200	-	-	8,370,200
Fixed income mutual funds	6,765,410	2,208,346	-	8,973,756
Fixed income institutional mutual funds	44,193,265	-	-	44,193,265
Equities	57,152,730	-	-	57,152,730
Equity mutual funds	115,586,785	946,434	-	116,533,219
Equity institutional mutual funds	-	67,209,459	-	67,209,459
Alternative investments	-	129,747,876	233,445,751	363,193,627
Total assets	$ 304,149,814	$ 201,755,150	$ 234,112,865	$ 740,017,829

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

June 30, 2011

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities				
Interest rate hedges/ swap agreements	$ -	$ 11,643,035	$ -	$ 11,643,035
Total liabilities	$ -	$ 11,643,035	$ -	$ 11,643,035

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, 2011:

	Fair value measurements (Level 3)
Balance, June 30, 2010	$ 222,372,559
Reallocation from Level 3 from prior year	(909,792)
Transfers in (e.g., purchases and capital calls)	8,377,095
Transfers out (e.g., redemptions and distributions/realized gains)	(17,776,451)
Unrealized (losses) gains	22,049,454
Balance, June 30, 2011	$ 234,112,865

June 30, 2010

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	$ 46,719,608	$ -	$ -	$ 46,719,608
Short-term investments	2,021,856	-	633,538	2,655,394
Deposits with bond and other trustees	5,334,860	2,821,402	-	8,156,262
Fixed income investments	45,776,114	-	-	45,776,114
Fixed income mutual funds	43,029	7,618,604	-	7,661,633
Fixed income institutional mutual funds	44,193,266	14,583,256	-	58,776,522
Equities	23,066,381	-	-	23,066,381
Equity mutual funds	49,109,331	19,434,849	-	68,544,180
Equity institutional mutual funds	-	51,765,153	909,794	52,674,947
Alternative investments	-	120,011,462	220,829,227	340,840,689
Total assets	$ 216,264,445	$ 216,234,726	$ 222,372,559	$ 654,871,730

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

June 30, 2010

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities				
Interest rate hedges/ swap agreements	$ -	$ 12,821,402	$ -	$ 12,821,402
Total liabilities	$ -	$ 12,821,402	$ -	$ 12,821,402

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, 2010:

	Fair value measurements (Level 3)
Balance, June 30, 2009	$ 203,522,402
Reallocation to Level 3 from prior year	17,573,931
Transfers in (e.g., purchases and capital calls)	22,663,477
Transfers out (e.g., redemptions and distributions/realized gains)	(39,298,521)
Unrealized (losses) gains	17,911,270
Balance, June 30, 2010	$ 222,372,559

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2011 are as follows:

Category		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fixed income mutual funds		$ 2,208,346	$ -	None	N/A
Fixed income institutional mutual funds		-	-	N/A	N/A
Equity mutual funds		946,434	-	None	N/A
Equity institutional mutual funds		67,209,459	-	Month-Qtr	None-60 days
Long/short equity funds	(a)	78,289,181	-	Qtr-CY	30/60-90 days
Multi-strategy/absolute return funds	(b)	103,473,421	-	None-Qtr-CY	N/A-None-60/90 days

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

Category		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Event driven/distressed funds	(c)	$ 30,403,222	$ 355,681	None	N/A
Opportunistic fixed income funds	(d)	41,434,962	-	None-Qtr	N/A-90 days
Real estate funds	(e)	36,675,628	2,687,343	None	N/A
Private equity funds	(f)	72,917,213	17,649,284	None	N/A
		$ 433,557,866	$ 20,692,308		

(a) *Long/short equity funds.* This category invests 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. Based on June 30, 2011 fair values, 45.2% of this category can be redeemed at calendar year end with 90 days' notice; 20.9% can be redeemed quarterly with 60 days' notice; and 33.9% can be redeemed quarterly with 30 days' notice.

(b) *Multi-strategy/absolute return funds.* Investments in this category focus 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. Based on June 30, 2011 fair values, 0.4% of this category is in the process of winding down; 49.3% can be redeemed quarterly with no notice; 25.1% can be redeemed at calendar year end with 60 days' notice; 20.8% can be redeemed at calendar year end with 90 days' notice; and 4.4% is subject to a side pocket limitation.

(c) *Event driven/distressed funds.* This category invests in non-control, U.S. dollar denominated securities of distressed global companies. Based on June 30, 2011 fair values, the investment period has ended on 55.5% of this category, 31.4% has entered into a special purpose vehicle (SPV) status fund, and 13.1% has no right to redeem per document restrictions.

(d) *Opportunistic fixed income funds.* Investments in this category include senior bank loan fixed income securities, emerging market sovereign debt, and mortgage market securities with advantageous price terms resulting from market dislocations. Based on June 30, 2011 fair values, 40.7% can be redeemed quarterly with 90 days' notice, 46.0% has no right of withdrawal and 13.3% was gated as of September 30, 2009 with distributions to be made as cash is available.

(e) *Real estate funds.* This category's investments include any interest in or vehicle relating to real estate assets. Based on June 30, 2011 fair values, 1.8%, invested in properties adjacent to the campus, could be liquidated as soon as possible, with no right to redeem on the balance of the allocation (98.2%).

(f) *Private equity funds.* Holdings in this category include private equity, venture capital funds, buyout funds, secondary funds, and direct investments. Based on June 30, 2011 fair values, 100.0% of this class has no right to redeem.

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

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. Contributions Receivable

Contributions receivable are non-recurring fair value measurements. Any multi-year pledges received in 2011 and 2010 are recorded at the present value of future cash flows with a discount rate adjusted for any market conditions to arrive at fair value.

2. Investments

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. Cash and cash equivalents are reported at fair value which approximates cost and considered to be Level 1 in the hierarchy.

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 hedges/swaps agreements.

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

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. Fixed income mutual funds are generally considered to be a Level 1 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 do not have quoted prices in active markets and are considered to be a Level 2 in the hierarchy.

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

Equity - Stocks: Domestic and/or foreign equity securities with quoted prices in active markets. Equity stocks are considered 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.

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, real estate, multi-strategy, long/short equities, distressed, and opportunistic fixed income. If the underlying holdings are quoted in active markets, the investment is considered to be a Level 2 in the hierarchy. If the underlying holdings are not quoted in active markets, the investment is considered to be a Level 3 in the hierarchy.

3. Interest Rate Hedges/Swap Agreements Liability

The interest rate hedges/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 hedges/swaps 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 hedges/swap agreements as a Level 2 input.

4. Bonds Payable

The estimated fair value of bonds payable, based on quoted market prices for the same or similar issues, was approximately $3.3 million greater than its carrying value at June 30, 2011, and $6.5 million greater than its carrying value at June 30, 2010 (Note E). These items are considered a Level 2 input.

NOTE H - NET ASSETS

Operating net assets released from restriction include support for such program activities as student financial aid and instruction. Nonoperating net assets released from restriction include expenditures for capital projects and the maturity of certain split-interest agreements.

Unrestricted net assets consist primarily of long-term investments generating investment return in support of the College’s educational mission and purposes, and in land, facilities and funds designated for facilities.

(Continued)

NOTE H - NET ASSETS - Continued

Temporarily restricted net assets are primarily comprised of investment gains that can be used in operations subject to statutory restrictions. Other temporarily restricted net assets are generally available for program purposes such as financial aid, facilities and equipment and deferred giving arrangements based on donor restrictions.

Permanently restricted net assets are restricted by the donor; the investment return from these net assets is used to support program activities such as financial aid and instruction.

NOTE I - SUMMARY OF EXPENSES

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

	2011	2010
Salaries and wages	$ 51,595,659	$ 50,615,122
Benefits	18,352,362	18,330,566
Total compensation	69,948,021	68,945,688
Professional services and contracting	10,447,861	8,968,186
Supplies and minor equipment	4,166,372	3,676,231
Auxiliaries, cost of sales	1,839,114	1,939,422
Utilities	5,148,032	4,546,578
Travel and entertainment	4,795,542	3,841,039
Insurance and taxes	1,700,312	1,599,047
Dining services contract	5,627,290	5,423,105
Printing and copying	964,143	893,137
Repairs and maintenance	856,001	800,407
Telephone and cable	691,948	688,801
Postage	514,028	487,363
Student aid related expenses	306,041	365,378
Depreciation	13,289,478	13,117,568
Interest, net of capitalized interest	7,703,550	7,457,104
Other	4,751,631	4,252,158
Total expenses	$ 132,749,364	$ 127,001,212

The College expended approximately $3,400,000 and $3,200,000 in the years ended June 30, 2011 and 2010, 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 J - STUDENT LOANS RECEIVABLE CREDIT QUALITY

The College makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2011 and 2010, student loans represented 0.43% and 0.45% of total assets, respectively.

At June 30, 2011 and 2010, student loans consisted of the following:

	2011	2010
Federal government programs	$ 2,654,624	$ 2,619,067
Institutional programs	2,427,052	2,266,170
	5,081,676	4,885,237
Less allowance for doubtful accounts:		
Beginning of year	(671,375)	(641,375)
Increases	(16,000)	(30,000)
Write-offs	-	-
End of year	(687,375)	(671,375)
Student loans receivable, net	$ 4,394,301	$ 4,213,862

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 $2,006,913 and $2,000,200 at June 30, 2011 and 2010, 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, 2011 and 2010, 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
2011	$ 4,413	$ 227	$ 356,931	$ 361,571
2010	3,540	77	326,933	330,550

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 K - 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. The outstanding balance at both June 30, 2011 and June 30, 2010 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 became effective June 26, 2009, and the outstanding balance at both June 30, 2011 and June 30, 2010 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.

In connection with the renewals of the College's standby bond purchase agreements (SBPA) supporting its Series A of 1998, Series B of 1998, Series of 2003 and Series of 2006 bonds, on September 24, 2009, the College entered into a new depository relationship with a third financial institution.

NOTE L - SUBSEQUENT EVENTS

The College evaluated its June 30, 2011 financial statements for subsequent events through October 5, 2011, the date the financial statements were available to be issued, and notes the items below for disclosure.

1. Development of Student Residence Facility

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 that will be responsible for the construction and management of the facility. The College will then master lease the facility from the developer with the intent to use the facility for student residence. The facility will have thirty-one beds in twelve apartments over four stories. 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 thirty years. As part of the development agreement, the College is guaranteeing the borrower's construction loan, expected to be approximately $3.0 million. The permanent loan from the financial institution is for a ten-year period at a fixed interest rate of 3.75%. The College retains ownership of the land, and the agreements allow the College to purchase the facility from the developer and assume the loan according to the negotiated terms. As the construction and development loan is guaranteed by the College, the borrowing is fully considered in the College's financial records.

(Continued)

NOTE L - SUBSEQUENT EVENTS - Continued

2. Renewal of Liquidity Facilities

On August 1, 2011, the College's standby bond purchase agreements (SBPA), supporting its Series A of 1998, Series B of 1998, Series of 2003 and Series of 2006 bonds, were extended through October 5, 2015.

3. Reprographic Equipment Lease

In September 2011, the College entered into a five-year lease for various pieces of reprographic equipment and associated service/support. The monthly lease payments will vary, but the total of the expected payments over the term of the lease is approximately $900,000.

Grant Thornton