

Financial Statements and Report of Independent
Certified Public Accountants

Lafayette College

June 30, 2012 and 2011

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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, 2012 and 2011 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 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, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 4, 2012

STATEMENTS OF FINANCIAL POSITION

June 30,

| ASSETS | 2012 | 2011 |
|--|-------------------------|-------------------------|
| Cash and cash equivalents | \$ 46,235,894 | \$ 65,319,383 |
| Short-term investments | 1,965,619 | 2,698,512 |
| Accounts and notes receivable, net | 1,729,940 | 1,248,619 |
| Inventories | 657,972 | 647,220 |
| Contributions receivable and bequests in probate, net | 10,389,670 | 12,711,354 |
| Prepaid expenses | 3,298,724 | 1,563,614 |
| Student loans receivable, net | 4,418,829 | 4,394,301 |
| Deposits with bond and other trustees | 12,140,270 | 6,373,678 |
| Long-term investments | 668,996,860 | 665,626,256 |
| Deferred charges, net | 1,295,327 | 1,452,159 |
| Land, buildings and equipment, net of accumulated depreciation | <u>255,744,187</u> | <u>252,919,201</u> |
| Total assets | <u>\$ 1,006,873,292</u> | <u>\$ 1,014,954,297</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 3,980,833 | \$ 2,821,337 |
| Accrued liabilities | 5,767,300 | 4,709,291 |
| Deposits and deferred revenues | 7,845,543 | 8,408,356 |
| Annuities payable | 20,630,775 | 20,508,939 |
| Postretirement benefits | 46,459,000 | 36,916,000 |
| Federal student loans refundable | 2,024,586 | 2,006,913 |
| Interest rate hedge/swap agreements | 20,200,719 | 11,643,035 |
| Conditional asset retirement obligation | 1,576,032 | 6,041,111 |
| Capitalized lease obligations | 2,866,661 | 89,907 |
| Bonds payable, net | <u>170,331,308</u> | <u>170,788,606</u> |
| Total liabilities | <u>281,682,757</u> | <u>263,933,495</u> |
| Net assets | | |
| Unrestricted - allocated for specific purposes | 19,993,817 | 17,108,861 |
| Unrestricted - allocated for long-term investment | 122,728,310 | 142,888,508 |
| Unrestricted - held as charitable gift annuities | 784,764 | 607,632 |
| Unrestricted - invested in plant | <u>80,101,250</u> | <u>77,710,658</u> |
| Total unrestricted | <u>223,608,141</u> | <u>238,315,659</u> |
| Temporarily restricted - other funds | 5,989,669 | 9,662,888 |
| Temporarily restricted - endowment and annuity/life income funds | <u>230,330,627</u> | <u>240,214,576</u> |
| Total temporarily restricted | <u>236,320,296</u> | <u>249,877,464</u> |
| Total permanently restricted | <u>265,262,098</u> | <u>262,827,679</u> |
| Total net assets | <u>725,190,535</u> | <u>751,020,802</u> |
| Total liabilities and net assets | <u>\$ 1,006,873,292</u> | <u>\$ 1,014,954,297</u> |

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

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

The accompanying notes are an integral part of these statements.

Lafayette College

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) |
| Change in fair value of interest rate hedge/swap agreements | 1,178,367 | - | - | 1,178,367 |
| Recovery for bad debt on contributions receivable | 2,613,140 | 238,876 | 21,394 | 2,873,410 |
| Change in postretirement benefits cost | 4,605,000 | - | - | 4,605,000 |
| Loss on disposal of property, plant and equipment | (338,229) | - | - | (338,229) |
| Other loss | - | (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

STATEMENTS OF CASH FLOWS

Years ended June 30,

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities | | |
| Student tuition and fees and auxiliary enterprises received | \$ 92,079,650 | \$ 85,937,310 |
| Gifts, grants, and contracts received | 9,081,811 | 11,105,473 |
| Interest and dividends received | 10,058,739 | 10,753,944 |
| Payments to suppliers and employees | (115,993,440) | (109,585,817) |
| Interest paid | (7,409,669) | (7,812,906) |
| Income taxes paid | (337,550) | (300) |
| Payments to beneficiaries | (1,474,770) | (1,437,652) |
| Income received for annuitants | 1,043,001 | 988,033 |
| Other receipts | <u>2,920,568</u> | <u>2,500,480</u> |
| Net cash used in operating activities | <u>(10,031,660)</u> | <u>(7,551,435)</u> |
| Cash flows from investing activities | | |
| Purchases of land, building and equipment | (11,591,504) | (6,015,617) |
| Purchases of construction in progress | (3,729,552) | (3,025,850) |
| Loans distributed to students and faculty | (519,661) | (635,620) |
| Repayments of loans from students and faculty | 394,915 | 413,791 |
| Purchases of investments | (100,880,713) | (88,575,717) |
| Proceeds from sales and maturities of investments | 99,744,209 | 107,426,831 |
| Proceeds from sales of property, plant and equipment | 5,540 | 1,600 |
| (Remittances) receipts of deposits with bond and other trustees | <u>(5,766,592)</u> | <u>1,782,584</u> |
| Net cash (used in) provided by investing activities | <u>(22,343,358)</u> | <u>11,372,002</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of debt | 2,923,402 | - |
| Repayment of principal of debt | (318,429) | (295,037) |
| Payments to annuitants | (1,993,338) | (1,813,024) |
| Increase in federal student loans refundable | 20,782 | 6,713 |
| Payments for voluntary retirement incentive plan | (377,022) | - |
| Contributions for investment in endowment and annuities | 11,375,522 | 11,651,846 |
| Contributions for investment in plant facilities | <u>1,660,612</u> | <u>5,228,710</u> |
| Net cash provided by financing activities | <u>13,291,529</u> | <u>14,779,208</u> |
| (Decrease) increase in cash and cash equivalents | (19,083,489) | 18,599,775 |
| Cash and cash equivalents | | |
| Beginning of year | <u>65,319,383</u> | <u>46,719,608</u> |
| End of year | <u>\$ 46,235,894</u> | <u>\$ 65,319,383</u> |

(Continued)

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30,

| | <u>2012</u> | <u>2011</u> |
|---|------------------------|-----------------------|
| Change in net assets | \$ (25,830,267) | \$ 81,830,124 |
| Reconciliation of change in net assets to net cash used in operating activities | | |
| Depreciation | 13,322,710 | 13,289,478 |
| Accretion of interest costs for asset retirement obligations | 75,049 | 287,673 |
| Amortization of bond issuance costs | 82,670 | 82,670 |
| Amortization of net bond discount and premium | (207,298) | (207,299) |
| Change in allowance for doubtful student accounts, loans and notes | 161,600 | 114,679 |
| Change in allowance for doubtful pledges receivable and bequests in probate | (42,871) | 52,820 |
| Net realized gain on investments | (21,124,626) | (14,596,069) |
| Net unrealized loss (gain) on investments | 25,537,737 | (69,917,808) |
| Nonoperating loss (gain) on interest rate hedges/swaps agreements | 8,557,684 | (1,178,367) |
| Nonoperating gain on conditional asset retirement obligation | (3,670,215) | - |
| Nonoperating loss (gain) on adjustment for experience of postretirement benefits cost | 8,074,000 | (4,605,000) |
| Nonoperating gain on change of allowance or write-off of pledge receivable | (497,004) | (2,873,410) |
| Nonoperating (gain) loss on land, building and equipment disposals | (67,330) | 339,829 |
| Nonoperating contributions restricted for long-term investment | (16,585,694) | (15,348,066) |
| Nonoperating distribution to fund annuities payable | (1,887,847) | (1,733,030) |
| Changes in assets and liabilities | | |
| Decrease in short-term investments | 1,344,665 | 850,126 |
| Increase in accounts and notes receivable, net | (548,921) | (82,111) |
| Increase in inventories | (10,752) | (68,678) |
| Decrease (increase) in contributions receivable and bequests in probate | 893,730 | (365,787) |
| Increase in prepaid expenses | (1,739,599) | (105,821) |
| Decrease in deferred charges | - | 65,871 |
| Increase in accounts payable, accrued liabilities and annuities payable | 3,096,491 | 6,422,412 |
| Decrease in deposits and deferred revenues | (376,730) | (702,110) |
| Increase in postretirement benefits | 1,469,000 | 1,379,000 |
| Increase (decrease) in interest rate hedge/swap agreements | 896 | (128) |
| Other nonoperating activity | (58,738) | (482,433) |
| Net cash used in operating activities | <u>\$ (10,031,660)</u> | <u>\$ (7,551,435)</u> |
| Supplemental cash flow data | | |
| Noncash transactions: | | |
| Amounts included in accounts payable and accrued liabilities | | |
| for purchase of land, buildings and equipment | \$ 645,947 | \$ 204,586 |
| Capital lease obligation | 84,559 | 51,909 |

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 2,399 and 2,328 full-time students, of which approximately 87% lived on campus for the years ended June 30, 2012 and 2011, respectively.

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

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

- Unrestricted - Net assets that are 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.
- 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.
- 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.

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 reclassified 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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

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 \$984,000 and \$922,000 at June 30, 2012 and 2011, respectively.

4. Contributions Receivable and Bequests in Probate

At June 30, 2012, the estimated present value of contributions receivable and bequests in probate are shown below. The discount rates range from 1.25% to 6.00%.

| | 2012 | | | Total |
|---------------------|-------------------------------|------------------------------|-----------------------------|----------------------|
| | <u>Less than one year</u> | <u>One to five years</u> | <u>Six to ten years</u> | |
| Pledges of gifts | \$ 3,298,021 | \$ 6,278,710 | \$ 112,239 | \$ 9,688,970 |
| Bequests in probate | <u>700,700</u> | <u>-</u> | <u>-</u> | <u>700,700</u> |
| | <u>\$ 3,998,721</u> | <u>\$ 6,278,710</u> | <u>\$ 112,239</u> | <u>\$ 10,389,670</u> |

Contributions receivable and bequests in probate are reported net of provisions for doubtful accounts and discounts. The provision for doubtful accounts was \$622,000 and \$1,162,000 and discounts were \$399,000 and \$463,600 at June 30, 2012 and 2011, respectively. The provision is intended to provide for contributions receivable and bequests in probate that may not be collected. At June 30, 2012, the College had also received conditional promises to give of approximately \$7,104,000. 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 \$781,000 and \$687,000 at June 30, 2012 and 2011, 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)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Inventories

Inventories primarily consist of books and other supplies and 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 and are disclosed 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, 2012 and 2011, the liability associated with split-interest agreements was \$20,630,775 and \$20,508,939, respectively, and is recorded as annuities payable in the statements of financial position.

At June 30, 2012 and 2011, the fair value of such assets for split-interest agreements was \$41,603,440 and \$42,060,549, respectively, and is recorded, as applicable, in cash and cash equivalents and long-term investments in the statements of financial position. At June 30, 2012 and 2011, the cost was \$39,379,249 and \$38,410,291, 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:

| | <u>Years</u> |
|---------------------------------------|--------------|
| Buildings | 40 |
| Systems and improvements | 25 |
| Equipment, library books and vehicles | 5 |

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

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, 2012 and 2011 is \$2,794,034 and \$2,455,034, respectively.

Capitalized interest has been recognized as 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. Net capitalized interest was \$-0- in each year for the years ended June 30, 2012 and 2011.

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, 2012 and 2011 in the amounts of \$1,939,551 and \$4,730,643, respectively. This category also includes the collateral obligation to the counterparty under the College's various interest rate hedge/swap agreements as described in Note E10. Such obligation at June 30, 2012 and 2011 was \$10,200,719 and \$1,643,035, 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 hedge/swap agreements are recognized as either other long-term assets or other long-term liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value. Gains or losses resulting from changes in the fair values of the interest rate hedge/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 E10.

(Continued)