

Financial Statements and Report of Independent
Certified Public Accountants

Lafayette College

June 30, 2008 and 2007

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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, 2008 and 2007 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, 2008 and 2007 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, Pennsylvania

October 2, 2008

Lafayette College

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2008	2007
Cash and cash equivalents	\$ 78,215,220	\$ 46,631,436
Short-term investments	16,355,783	10,272,446
Accounts and notes receivable, net	738,870	897,776
Inventories	592,614	651,429
Contributions receivable and bequests in probate, net	15,903,205	11,575,161
Prepaid expenses and deferred charges, net	3,974,831	3,810,266
Student loans receivable, net	3,716,607	3,379,037
Deposits with bond trustee	2,523,579	2,904,146
Long-term investments	646,845,668	742,896,741
Land, buildings and equipment, net of accumulated depreciation	<u>261,867,953</u>	<u>261,644,014</u>
 Total assets	 <u>\$ 1,030,734,330</u>	 <u>\$ 1,084,662,452</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 2,765,581	\$ 3,255,665
Accrued liabilities	3,225,272	4,089,048
Deposits and deferred revenues	7,524,442	7,463,574
Annuities payable	19,925,691	21,680,854
Postretirement benefits	40,364,000	38,627,000
Federal student loans refundable	1,976,099	1,968,073
Interest rate swaps and swaption liability	6,221,082	3,306,502
Asset retirement obligation	5,306,369	5,506,381
Notes and capitalized leases payable	20,104,054	16,137,248
Bonds payable, net	<u>142,434,368</u>	<u>143,817,611</u>
 Total liabilities	 <u>249,846,958</u>	 <u>245,851,956</u>
Net assets		
Unrestricted - future operations	4,585,347	5,148,541
Unrestricted - allocated for specific purposes	10,874,825	8,098,326
Unrestricted - allocated for long-term investment	145,859,013	170,046,086
Unrestricted - held as charitable gift annuities	522,581	542,413
Unrestricted - invested in plant	<u>94,798,761</u>	<u>94,169,719</u>
 Total unrestricted	 <u>256,640,527</u>	 <u>278,005,085</u>
Temporarily restricted - other funds	5,803,432	2,741,227
Temporarily restricted - endowment and annuity/life income funds	<u>255,981,292</u>	<u>297,738,553</u>
 Total temporarily restricted	 <u>261,784,724</u>	 <u>300,479,780</u>
 Total permanently restricted	 <u>262,462,121</u>	 <u>260,325,631</u>
 Total net assets	 <u>780,887,372</u>	 <u>838,810,496</u>
 Total liabilities and net assets	 <u>\$ 1,030,734,330</u>	 <u>\$ 1,084,662,452</u>

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENT OF ACTIVITIES

Year ended June 30, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Student related revenue				
Tuition and fees	\$ 81,359,110	\$ -	\$ -	\$ 81,359,110
Sales and services of auxiliaries	22,058,627	-	-	22,058,627
	103,417,737	-	-	103,417,737
Scholarships and fellowships	(29,154,968)	-	-	(29,154,968)
Net student related revenue	74,262,769	-	-	74,262,769
Other revenue				
Government grants and contributions	520,166	157,574	-	677,740
Private gifts and grants	8,191,952	1,392,967	-	9,584,919
Endowment return used for spending policy	30,869,417	333,531	-	31,202,948
Other investment return	2,853,763	32,274	-	2,886,037
Other	2,667,343	73,115	-	2,740,458
Net assets released from restriction	897,070	(897,070)	-	-
Total operating revenue	120,262,480	1,092,391	-	121,354,871
Operating expenses				
Instruction	45,170,777	-	-	45,170,777
Public service	102,407	-	-	102,407
Research	692,841	-	-	692,841
Academic support	13,012,755	-	-	13,012,755
Student services	22,763,385	-	-	22,763,385
Institutional support	18,760,119	-	-	18,760,119
Scholarships and fellowships	670,253	-	-	670,253
Auxiliary services	22,261,748	-	-	22,261,748
Total operating expenses	123,434,285	-	-	123,434,285
(Decrease) increase in net assets from operating activities	(3,171,805)	1,092,391	-	(2,079,414)
Nonoperating activities				
Investment return, net of amounts withdrawn for operations	(20,539,596)	(42,316,620)	(11,633,031)	(74,489,247)
Capital gifts	3,972,226	2,984,094	14,356,711	21,313,031
Redesignation of net assets to temporary or permanently restricted	(1,861,743)	1,733,855	127,888	-
Change in estimate for annuities payable	18,100	1,158,800	596,100	1,773,000
Distribution to fund annuities payable	-	(514,052)	(1,173,507)	(1,687,559)
Loss on change in market value of interest rate swap agreements	(1,708,636)	-	-	(1,708,636)
Loss on change in market value of interest rate swaption agreement	(1,440,565)	-	-	(1,440,565)
Provision for bad debt on contributions receivable	17,343	(3,800)	(173,166)	(159,623)
Gain on disposal of property, plant & equipment	26,672	-	-	26,672
Gain on adjustment for funded status of postretirement benefits cost	413,000	-	-	413,000
Gain on conditional asset retirement	189,855	-	-	189,855
Other (loss) income	-	(109,133)	35,495	(73,638)
Net assets released from restriction	2,720,591	(2,720,591)	-	-
(Decrease) increase in net assets from nonoperating activities	(18,192,753)	(39,787,447)	2,136,490	(55,843,710)
Net (decrease) increase in net assets for the year	(21,364,558)	(38,695,056)	2,136,490	(57,923,124)
Net assets				
Beginning of year	278,005,085	300,479,780	260,325,631	838,810,496
End of year	\$ 256,640,527	\$ 261,784,724	\$ 262,462,121	\$ 780,887,372

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENT OF ACTIVITIES

Year ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue				
Student related revenue				
Tuition and fees	\$ 75,193,485	\$ -	\$ -	\$ 75,193,485
Sales and services of auxiliaries	21,371,654	-	-	21,371,654
	<u>96,565,139</u>	<u>-</u>	<u>-</u>	<u>96,565,139</u>
Scholarships and fellowships	(26,379,342)	-	-	(26,379,342)
Net student related revenue	70,185,797	-	-	70,185,797
Other revenue				
Government grants and contributions	724,639	153,528	-	878,167
Private gifts and grants	6,644,388	519,150	-	7,163,538
Endowment return used for spending policy	28,339,276	310,505	-	28,649,781
Other investment return	3,828,648	1,372	-	3,830,020
Other	2,529,878	74,782	-	2,604,660
Net assets released from restriction	1,676,121	(1,676,121)	-	-
Total operating revenue	<u>113,928,747</u>	<u>(616,784)</u>	<u>-</u>	<u>113,311,963</u>
Operating expenses				
Instruction	43,010,356	-	-	43,010,356
Research	658,426	-	-	658,426
Academic support	12,039,554	-	-	12,039,554
Student services	22,035,692	-	-	22,035,692
Institutional support	18,255,794	-	-	18,255,794
Scholarships and fellowships	766,039	-	-	766,039
Auxiliary services	21,263,980	-	-	21,263,980
Total operating expenses	<u>118,029,841</u>	<u>-</u>	<u>-</u>	<u>118,029,841</u>
Decrease in net assets from operating activities	<u>(4,101,094)</u>	<u>(616,784)</u>	<u>-</u>	<u>(4,717,878)</u>
Nonoperating activities				
Investment return, net of amounts withdrawn for operations	20,864,685	54,585,427	16,501,171	91,951,283
Capital gifts	4,971,591	1,577,039	5,003,103	11,551,733
Redesignation of net assets to temporary or permanently restricted	(876,255)	117,339	758,916	-
Change in estimate for annuities payable	9,900	(535,200)	(36,800)	(562,100)
Distribution to fund annuities payable	(88,402)	(723,240)	(1,070,070)	(1,881,712)
Loss on change in market value of interest rate swap agreements	(82,918)	-	-	(82,918)
Loss on change in market value of interest rate swaption agreement	(540,496)	-	-	(540,496)
Provision for bad debt on contributions receivable	(17,200)	(21,475)	(58,842)	(97,517)
Loss on disposal of property, plant & equipment	(169,816)	-	-	(169,816)
Other loss	-	(65,529)	-	(65,529)
Net assets released from restriction	11,968,738	(11,968,738)	-	-
Increase in net assets from nonoperating activities	<u>36,039,827</u>	<u>42,965,623</u>	<u>21,097,478</u>	<u>100,102,928</u>
Effect of adoption of recognition and measurement provisions of FASB 158	<u>(7,582,000)</u>	<u>-</u>	<u>-</u>	<u>(7,582,000)</u>
Net increase in net assets for the year	24,356,733	42,348,839	21,097,478	87,803,050
Net assets				
Beginning of year	<u>253,648,352</u>	<u>258,130,941</u>	<u>239,228,153</u>	<u>751,007,446</u>
End of year	<u>\$ 278,005,085</u>	<u>\$ 300,479,780</u>	<u>\$ 260,325,631</u>	<u>\$ 838,810,496</u>

The accompanying notes are an integral part of these statements.

Lafayette College

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Student tuition and fees and auxiliary enterprises	\$ 74,629,741	\$ 70,152,895
Gifts, grants, and contracts received	7,101,671	7,486,346
Interest and dividends received	11,237,239	8,442,630
Payments to suppliers and employees	(101,990,041)	(97,230,880)
Interest paid	(7,254,298)	(6,403,259)
Income taxes paid	231,234	-
Payments to beneficiaries	(1,658,056)	(1,587,855)
Income received for annuitants	556,891	600,417
Other receipts	<u>2,832,313</u>	<u>2,720,119</u>
Net cash used in operating activities	<u>(14,313,306)</u>	<u>(15,819,587)</u>
Cash flows from investing activities		
Purchase of land, building and equipment	(9,018,812)	(32,671,305)
Purchases of construction in progress	(5,148,017)	(7,842,663)
Loans distributed to students and faculty	(729,700)	(660,980)
Repayments of loans from students and faculty	380,944	569,957
Purchase of investments	(145,641,821)	(96,424,942)
Proceeds from sales and maturities of investments	187,359,342	115,413,093
Proceeds from sales of property, plant and equipment	38,082	6,286
Receipts of deposits with bond trustee	<u>380,567</u>	<u>(900,174)</u>
Net cash provided by (used in) investing activities	<u>27,620,585</u>	<u>(22,510,728)</u>
Cash flows from financing activities		
Proceeds from issuance of debt	20,053,753	31,050,000
(Receipts) payments on interest rate swap agreements	(218,733)	32,068
Repayment of principal of debt	(17,511,948)	(14,701,053)
Payments to annuitants	(1,096,579)	(1,358,300)
Increase in federal student loans refundable	8,026	10,876
Payments for bond issuance costs	(128,420)	(348,558)
Contributions for investment in endowment and annuities	14,021,127	6,786,059
Contributions for investment in plant facilities	<u>3,149,279</u>	<u>2,538,200</u>
Net cash provided by financing activities	<u>18,276,505</u>	<u>24,009,292</u>
Increase (decrease) in cash and cash equivalents	31,583,784	(14,321,023)
Cash and cash equivalents		
Beginning of year	<u>46,631,436</u>	<u>60,952,459</u>
End of year	<u>\$ 78,215,220</u>	<u>\$ 46,631,436</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

Lafayette College

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30,

	<u>2008</u>	<u>2007</u>
Change in net assets	\$ (57,923,124)	\$ 87,803,050
Reconciliation of change in net assets to net cash used in operating activities		
Cumulative effect of the change in accounting principle	-	7,582,000
Depreciation	12,828,832	12,085,623
Accretion of interest costs for asset retirement obligations	263,723	257,179
Amortization of bond issuance costs	209,496	183,373
Amortization of bond discount	41,757	41,758
Change in allowance for doubtful student accounts, loans and notes	10,000	74,034
Change in allowance for doubtful pledges receivable and bequests in probate	76,290	25,595
Net realized gain on investments	(43,821,047)	(27,756,161)
Net unrealized loss (gain) on investments	96,482,267	(86,874,639)
Nonoperating loss on interest rate swaption agreement	1,440,565	540,496
Nonoperating loss on interest rate swap agreements	1,708,636	82,918
Nonoperating (gain) on conditional asset retirement	(189,855)	-
Nonoperating (gain) on adjustment for funded status of postretirement benefits cost	(413,000)	-
Nonoperating loss on increase of allowance or write-off of pledge receivable	159,766	97,517
Changes in assets and liabilities		
Increase in short-term investments	(97,611)	(704,824)
(Increase) decrease in accounts and notes receivable, net	135,761	(106,348)
Decrease (increase) in inventories	58,815	(13,425)
(Increase) decrease in contributions receivable and bequests in probate	(168,024)	76,901
Increase in prepaid expenses and deferred charges	(175,641)	(193,961)
(Decrease) increase in accounts payable, accrued liabilities and annuities payable	(1,164,688)	1,816,638
Increase in deposits and deferred revenues	53,349	182,036
Increase in postretirement benefits	2,150,000	2,564,000
Nonoperating loss on land, building and equipment disposals	11,410	176,102
Nonoperating contributions restricted for long-term investment	(23,086,031)	(10,989,633)
Nonoperating distribution to fund annuities payable	(1,687,560)	(1,618,656)
Other nonoperating activity	<u>(1,217,392)</u>	<u>(1,151,160)</u>
Net cash used in operating activities	<u>\$ (14,313,306)</u>	<u>\$ (15,819,587)</u>
Supplemental cash flow data		
Noncash transactions		
Amounts included in accounts payable and accrued liabilities		
for purchase of land, buildings and equipment	\$ (837,886)	\$ (2,180,492)
Capital lease obligation	153,883	187,248

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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 has an average enrollment of 2,334 and 2,306 students of which approximately 84% live on campus for the years ended June 30, 2008 and 2007, 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 it is unclear when the donor-imposed restriction will be satisfied.

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.

Nonoperating activities as reported on the statements of activities are primarily transactions of a capital nature, that is, contributions to be used for facilities and equipment or to be invested by the College to generate a return that will support operations.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Cash and cash equivalents are reported at fair value which approximates cost.

3. Accounts and Notes Receivable

Accounts and notes receivable are reported net of allowance for doubtful accounts. The allowance for doubtful accounts was \$618,000 and \$608,000 at June 30, 2008 and 2007, respectively

4. Contributions Receivable and Bequests in Probate

At June 30, 2008, the estimated present value of contributions receivable and bequests in probate are shown below. The discount rates range from 2.25% to 6.0%.

	<u>2008</u>			
	<u>Less than one year</u>	<u>One to five years</u>	<u>Six to ten years</u>	<u>Total</u>
Pledges of gifts	\$ 5,445,012	\$ 8,724,269	\$ 900,363	\$ 15,069,644
Bequests in probate	<u>833,561</u>	<u>-</u>	<u>-</u>	<u>833,561</u>
	<u>\$ 6,278,573</u>	<u>\$ 8,724,269</u>	<u>\$ 900,363</u>	<u>\$ 15,903,205</u>

Contributions receivable and bequests in probate are reported net of provisions for doubtful accounts and discounts. The provision for doubtful accounts was \$276,300 and \$121,300 and discounts of \$1,025,000 and \$1,107,900 at June 30, 2008 and 2007, respectively. The provision is intended to provide for contributions receivable and bequests in probate that may not be collected. At June 30, 2008, the College had also received conditional promises to give of approximately \$3,900,000. 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 \$535,000 at both June 30, 2008 and 2007. 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Allowance for Doubtful Accounts

The allowance for doubtful accounts is 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.

7. Inventories

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

8. Investments

The College accounts for its investments in marketable securities at their fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Non-Profit Organizations*. The average cost of investment securities is used to determine the basis for computing realized and unrealized gains and losses.

The College records investments at fair value. Debt securities, equity securities and 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 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, 2008 and 2007, the liability associated with split-interest agreements was \$19,925,691 and \$21,680,854, respectively, and is recorded as annuities payable in the statements of financial position.

At June 30, 2008 and 2007, the market value of such assets for split interest agreements was \$38,411,787 and \$42,667,766, respectively, and is recorded in long-term investments in the statements of financial position. At June 30, 2008 and 2007, the cost was \$36,598,366 and \$36,845,000, respectively.

10. Endowment Investment Return Spending Policy

Commonwealth of Pennsylvania law permits the College to elect to spend a percentage of the market value of its endowment. This percentage shall not be less than 2% or more than 7% of the three-year moving average of the fair value of its investments.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The College has an endowment and similar funds spending policy that provides for steady growth in annual spending using a spending rate of 5% for nonscholarship funds and 6% for scholarship funds effective July 1, 1999. During the four years for the period beginning July 1, 1999 and ending June 30, 2003, the College has phased in the increase from 5% to 6% for scholarship funds. The base on which the applicable spending formula is calculated is a factor of the June 30, 1988 endowment market value, increased each year for inflation (usually 2.75%) and new additions to the endowment. This base is compared periodically to the actual market value and is adjusted when deemed appropriate. The College also funds the annual increase in postretirement benefits other than pensions from unrestricted investment return. All other income earned is considered nonoperating and reinvested. Funds may be withdrawn from the realized gains earned in prior years if the realized gain received in the current year is less than the spending limit. For the years ended June 30, 2008 and 2007, prior years' realized gains of \$-0- and \$57,362, respectively, were withdrawn.

Investment return, as shown on the statements of activities, is 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). Investment return was allocated as follows:

	<u>2008</u>	<u>2007</u>
Operating - endowment return used for spending policy	\$ 31,202,948	\$ 28,649,781
Operating - other	2,886,037	3,830,020
Nonoperating (loss) income	<u>(74,489,247)</u>	<u>91,951,283</u>
	<u>\$ (40,400,262)</u>	<u>\$ 124,431,084</u>

11. 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
Rental properties; systems and improvements	25
Equipment, library books and vehicles	5

Works of art, historical treasures and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations at the date of acquisition or donation. Works of art, historical treasures and similar assets are not depreciated. The aggregate carrying value of such assets at both June 30, 2008 and 2007 is \$1,900,689.

(Continued)

