

The Colleges of the Seneca
Financial Statements
May 31, 2007 and 2006

Report of Independent Auditors

To the Board of Trustees
The Colleges of the Seneca

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of The Colleges of the Seneca (the "Colleges") at May 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Colleges' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Colleges adopted Financial Accounting Standard Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of Financial Accounting Standards Board Statement No. 143 as of May 31, 2006.



September 10, 2007

The Colleges of the Seneca
Statements of Financial Position
May 31, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 34,458,402	\$ 22,629,302
Short-term investments	4,615,180	4,429,054
Accounts receivable, net of allowance of \$355,000 and \$321,000 in 2007 and 2006, respectively	1,090,499	1,248,860
Notes receivable, net of allowance of \$128,000 in 2007 and 2006	1,649,638	1,685,214
Inventories	494,003	475,120
Contributions receivable	11,555,953	22,436,205
Long-term investments	179,835,801	157,308,687
Land, buildings and equipment, net	111,848,605	105,193,555
Other assets	<u>2,230,221</u>	<u>2,009,026</u>
Total assets	<u>\$ 347,778,302</u>	<u>\$ 317,415,023</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 7,387,740	\$ 6,794,332
Cash overdraft	1,549,645	749,492
Deferred revenue and deposits	2,788,179	2,818,065
Deferred giving liabilities	2,125,946	2,189,529
Refundable advances from government loan programs	2,187,285	2,203,188
Asset retirement obligations	1,839,855	1,750,685
Borrowings	<u>34,952,402</u>	<u>37,422,056</u>
Total liabilities	<u>52,831,052</u>	<u>53,927,347</u>
Net assets		
Unrestricted	164,298,790	143,763,713
Temporarily restricted	37,180,147	33,908,530
Permanently restricted	<u>93,468,313</u>	<u>85,815,433</u>
Total net assets	<u>294,947,250</u>	<u>263,487,676</u>
Total liabilities and net assets	<u>\$ 347,778,302</u>	<u>\$ 317,415,023</u>

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

The Colleges of the Seneca
Statement of Activities
Year Ended May 31, 2007
(with comparative totals for 2006)

	2007			Total	2006 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating Revenues					
Tuition and fees,					
net of scholarships	\$ 41,304,026	\$ -	\$ -	\$ 41,304,026	\$ 37,248,672
Sales and services of auxiliaries	16,879,378	-	-	16,879,378	15,449,506
Government grants and contracts	1,912,447	-	-	1,912,447	2,033,166
Private gifts and grants	5,748,189	204,884	-	5,953,073	5,963,498
Endowment spending	6,767,841	162,248	-	6,930,089	6,519,965
Other investment income	2,132,918	201,568	-	2,334,486	1,705,955
Other	246,039	-	-	246,039	186,415
Net assets released from restrictions	179,595	(179,595)	-	-	-
Total operating revenues	<u>75,170,433</u>	<u>389,105</u>	<u>-</u>	<u>75,559,538</u>	<u>69,107,177</u>
Operating Expenses					
Instruction	24,317,121	-	-	24,317,121	23,322,560
Academic support	8,024,030	-	-	8,024,030	7,065,087
Student services	15,416,518	-	-	15,416,518	14,230,069
Institutional support	12,377,998	-	-	12,377,998	10,506,483
Auxiliaries operations	12,719,996	-	-	12,719,996	12,006,682
Total operating expenses	<u>72,855,663</u>	<u>-</u>	<u>-</u>	<u>72,855,663</u>	<u>67,130,881</u>
Change in net assets from operating activities	<u>2,314,770</u>	<u>389,105</u>	<u>-</u>	<u>2,703,875</u>	<u>1,976,296</u>
Nonoperating Revenues (Expenses)					
Investment return	16,085,219	1,570,079	340,179	17,995,477	11,486,538
Capital gifts	231,583	5,519,710	6,692,398	12,443,691	19,849,712
Capital campaign expense	(1,893,520)	-	-	(1,893,520)	(914,177)
Other (expense) revenue, net	(74,238)	-	-	(74,238)	72,012
Change in value of deferred giving arrangements	-	(336,014)	620,303	284,289	(142,843)
Net assets released from restrictions	3,871,263	(3,871,263)	-	-	-
Change in net assets from nonoperating activities	<u>18,220,307</u>	<u>2,882,512</u>	<u>7,652,880</u>	<u>28,755,699</u>	<u>30,351,242</u>
Increase in net assets before cumulative effect of a change in accounting principle	<u>20,535,077</u>	<u>3,271,617</u>	<u>7,652,880</u>	<u>31,459,574</u>	<u>32,327,538</u>
Cumulative effect of change in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,750,685)</u>
Increase in net assets	<u>20,535,077</u>	<u>3,271,617</u>	<u>7,652,880</u>	<u>31,459,574</u>	<u>30,576,853</u>
Net assets					
Beginning of year	<u>143,763,713</u>	<u>33,908,530</u>	<u>85,815,433</u>	<u>263,487,676</u>	<u>232,910,823</u>
End of year	<u>\$ 164,298,790</u>	<u>\$ 37,180,147</u>	<u>\$ 93,468,313</u>	<u>\$ 294,947,250</u>	<u>\$ 263,487,676</u>

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

The Colleges of the Seneca
Statement of Activities
Year Ended May 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees, net of scholarships	\$ 37,248,672	\$ -	\$ -	\$ 37,248,672
Sales and services of auxiliaries	15,449,506	-	-	15,449,506
Government grants and contracts	2,033,166	-	-	2,033,166
Private gifts and grants	4,380,822	1,582,676	-	5,963,498
Endowment spending	6,368,238	151,727	-	6,519,965
Other investment income	1,567,074	138,881	-	1,705,955
Other	186,156	259	-	186,415
Net assets released from restrictions	130,060	(130,060)	-	-
Total operating revenues	<u>67,363,694</u>	<u>1,743,483</u>	<u>-</u>	<u>69,107,177</u>
Operating Expenses				
Instruction	23,322,560	-	-	23,322,560
Academic support	7,065,087	-	-	7,065,087
Student services	14,230,069	-	-	14,230,069
Institutional support	10,506,483	-	-	10,506,483
Auxiliaries operations	12,006,682	-	-	12,006,682
Total operating expenses	<u>67,130,881</u>	<u>-</u>	<u>-</u>	<u>67,130,881</u>
Change in net assets from operating activities	<u>232,813</u>	<u>1,743,483</u>	<u>-</u>	<u>1,976,296</u>
Nonoperating Revenues (Expenses)				
Investment return	10,367,242	1,051,584	67,712	11,486,538
Capital gifts	928,192	12,748,048	6,173,472	19,849,712
Capital campaign expense	(914,177)	-	-	(914,177)
Other revenue, net	72,012	-	-	72,012
Change in value of deferred giving arrangements		(224,100)	81,257	(142,843)
Net assets with changed restrictions	5,392,310	(5,530,140)	137,830	-
Net assets released from restrictions	546,932	(546,932)	-	-
Change in net assets from nonoperating activities	<u>16,392,511</u>	<u>7,498,460</u>	<u>6,460,271</u>	<u>30,351,242</u>
Increase in net assets before cumulative effect of a change in accounting principle	16,625,324	9,241,943	6,460,271	32,327,538
Cumulative effect of change in accounting principle	<u>(1,750,685)</u>	<u>-</u>	<u>-</u>	<u>(1,750,685)</u>
Increase in net assets	14,874,639	9,241,943	6,460,271	30,576,853
Net assets				
Beginning of year	<u>128,889,074</u>	<u>24,666,587</u>	<u>79,355,162</u>	<u>232,910,823</u>
End of year	<u>\$ 143,763,713</u>	<u>\$ 33,908,530</u>	<u>\$ 85,815,433</u>	<u>\$ 263,487,676</u>

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

The Colleges of the Seneca
Statements of Cash Flows
Years Ended May 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 31,459,574	\$ 30,576,853
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	5,271,560	4,894,100
Cumulative effect of change in accounting principle	-	1,750,685
Provision for uncollectible contributions receivable	261,109	322,268
Loss on disposal of land, buildings and equipment	31,001	229,340
Change in value of deferred giving arrangements	(63,583)	148,574
Contributions restricted for long-term investment	(22,290,494)	(4,850,639)
Interest and dividends restricted for long-term investment	(136,196)	(56,811)
Net realized and unrealized gains on investments	(22,260,969)	(15,090,749)
Change in assets and liabilities:		
Accounts receivable	158,361	331,422
Inventories	(18,883)	(2,968)
Contributions receivable	10,619,143	(14,377,408)
Other assets	(317,111)	(231,681)
Accounts payable and accrued liabilities	(121,401)	920,002
Asset retirement obligations	8,547	-
Deferred revenues and deposits	(29,886)	52,341
Net cash provided by operating activities	<u>2,570,772</u>	<u>4,615,329</u>
Cash flows from investing activities		
Acquisition of land, buildings and equipment, net	(11,084,917)	(13,250,029)
Decrease in deposits with trustee of debt obligation	-	6,087,812
Notes issued	(378,528)	(340,062)
Proceeds from note collections	414,104	549,834
Proceeds from sale and maturities of investments	97,939,356	71,751,856
Purchases of investments	<u>(98,391,627)</u>	<u>(67,937,679)</u>
Net cash used in investing activities	<u>(11,501,612)</u>	<u>(3,138,268)</u>
Cash flows from financing activities		
Proceeds from contributions for		
Investment in endowment	7,783,809	3,416,508
Investment in plant	14,303,270	1,326,052
Investment subject to deferred giving arrangements	203,415	108,079
Interest and dividends restricted for reinvestment	136,196	56,811
Increase in cash overdraft	800,153	421,386
Decrease in refundable advances from government loan programs	(15,903)	(21,918)
Payment of long-term debt	<u>(2,451,000)</u>	<u>(2,346,000)</u>
Net cash provided by financing activities	<u>20,759,940</u>	<u>2,960,918</u>
Net increase in cash and cash equivalents	11,829,100	4,437,979
Cash and cash equivalents		
Beginning of year	<u>22,629,302</u>	<u>18,191,323</u>
End of year	<u>\$ 34,458,402</u>	<u>\$ 22,629,302</u>
Supplemental data		
Interest paid	\$ 1,916,252	\$ 2,031,793
Gifts in kind	131,300	109,105
Non-cash financing activities		
Change in construction related payables	714,809	(496,833)

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

The Colleges of the Seneca

Notes to Financial Statements

May 31, 2007 and 2006

1. Summary of Significant Accounting Policies

Basis of Presentation

Hobart and William Smith Colleges are coordinate Colleges joined under the corporate identity of The Colleges of the Seneca ("the Colleges"). The accompanying financial statements of the Colleges have been prepared on the accrual basis of accounting.

Net Asset Classes

The accompanying financial statements present information regarding the Colleges' financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated by the presence or absence of donor restrictions.

Unrestricted net assets may be designated for specific purposes by the Colleges or may be limited by contractual agreements with outside parties. Unrestricted net assets include operating, plant, and internally designated plant and funds functioning as endowment funds.

Temporarily restricted net assets are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. Temporarily restricted net assets consist principally of gifts restricted by donors for capital projects and other operating purposes, deferred giving arrangements and unconditional pledges receivable that are not permanently restricted.

Permanently restricted net assets are subject to donor stipulations requiring that they be maintained permanently, thereby restricting the use of principal. Usually, donor stipulations allow part or all of the income earned to be used currently for a restricted purpose such as scholarships or professorships. Permanently restricted net assets consist principally of permanent endowment principal balances, including unconditional pledges restricted for true endowment.

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 as "net assets released from restrictions". Temporarily restricted contributions received and expended for the restricted purpose in the same fiscal year are recorded as unrestricted net revenues.

Nonoperating activities reflect transactions of a capital nature, that is, contributions to be used for facilities and equipment or to be invested by the Colleges to generate a return that will support operations.

Contributions

Contributions, including unconditional pledges, are recognized as revenues when donors' commitments are received. Conditional pledges are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Unconditional pledges are recognized at the estimated net present value, net of an allowance for uncollectible amounts, and are classified as either permanently restricted or temporarily restricted. Contributions of assets other than cash are recorded at their estimated fair value. Contributions specified for the acquisition or construction of long-lived assets are reclassified from temporarily restricted to unrestricted net assets when the assets are placed in service.

The Colleges of the Seneca

Notes to Financial Statements

May 31, 2007 and 2006

Costs incurred by the Colleges in obtaining donor contributions were approximately \$3,910,000 and \$2,835,000 in 2007 and 2006, respectively. Approximately \$1,894,000 and \$914,000 for 2007 and 2006, respectively, of those costs were associated with the activities of the current capital campaign.

Investments and Investment Income

Investments are recorded at fair value. The fair value of publicly traded fixed income and equity securities is based on quoted market prices. The majority of limited partnership investments are recorded at estimated fair value (for which the underlying investments are principally valued at market) using information obtained from the general partner or investment manager for the respective funds as of May 31, 2007 and 2006. The Colleges believe that the recorded amount of these limited partnership investments is a reasonable estimate of fair value.

Under the terms of certain limited partnership agreements, the Colleges are obligated periodically to advance additional funding for private equity and real estate investments. At May 31, 2007, the Colleges had commitments of approximately \$13,226,000 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The Colleges maintain sufficient liquidity in their investment portfolio to cover such calls.

Realized gains and losses on the sale of investments are determined using the specific identification method. Investment return is reported in the statement of activities and the notes to the financial statements, net of management and custodial fees of approximately \$1,565,000 and \$1,408,000 for 2007 and 2006, respectively and performance fees of approximately, \$806,000 and \$560,000, for 2007 and 2006, respectively.

Total Return Spending Policy

The Colleges employ a total return spending policy which recognizes for spending purposes income equal to a percentage of a multi-year moving average of the unit value of pooled investments. The percentage was 5.1% and 5.2% in 2007 and 2006, respectively. In any given year, the amount availed from the pooled investments may, therefore, be greater or less than the dividend or interest yield for that year. Investment returns earned in excess of the spending policy are classified as nonoperating revenue; any shortfall is made up from historically earned capital appreciation.

Deferred Giving Arrangements

The Colleges' deferred giving arrangements consist primarily of gift annuities, pooled life income funds and charitable remainder trusts. Deferred giving assets of approximately \$5,562,000 and \$5,474,000 are included in long-term investments at their fair value as of May 31, 2007 and 2006, respectively. Contribution revenues are recognized at the date the arrangements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or beneficiaries. The liabilities are adjusted during the term of the arrangements for changes in the value of the assets and changes in the estimated present value of future cash outflows and other changes in the estimates of future benefits. The deferred giving liabilities represent the net present value of future cash outflows over the beneficiary's life expectancy as required by the deferred gift agreements. Discount rates are used to calculate the net present value of the obligations, and are based on risk free rates commensurate with the beneficiary life expectancy.

The Colleges of the Seneca

Notes to Financial Statements

May 31, 2007 and 2006

Funds Held in Trust by Others

Contributions receivable includes funds held in trust by others which represent resources neither in the possession nor under the control of the Colleges, but paid and administered by outside trustees, with the Colleges deriving income or a residual interest from the assets of such funds. Funds held in trust by others are recognized at the estimated fair value of the assets which approximates the net present value of the future cash flows when the irrevocable trust is established or the Colleges are notified of its existence and are subsequently adjusted for changes in the fair value annually.

Land, Buildings and Equipment

Grounds, site improvements, buildings, equipment and library books are recorded at cost at the date of acquisition or their fair value at the date of donation, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of the site improvements (20 years), buildings (15-45 years), equipment (5-20 years) and library books (20 years).

Inventories

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

Cash and Cash Equivalents

Cash investments with a maturity of three months or less when purchased are reported as cash equivalents, unless they are part of long-term investment pools.

Income Taxes

The financial statements do not provide for income taxes as the Colleges are tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Allocation of Certain Expenses

The statements of activities present expenses by functional classification. Operation and maintenance of plant, depreciation and interest expense are allocated based on square footage.

Asset Retirement Obligation

The Colleges account for asset retirement obligations in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations", and FAS Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations - An Interpretation of FASB Statement No. 143". This standard primarily affects the way the Colleges account for asbestos related removal costs. The Colleges accrue for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Colleges will recognize a gain or loss for any difference between the settlement amount and liability recorded.

Upon adoption of FIN 47 on May 31, 2006, the Colleges recognized \$1,750,685 as the cumulative effect of a change in accounting principle in the statement of activities. Accretion of the liability for the year ended May 31, 2007 was approximately \$81,000.

The Colleges of the Seneca
Notes to Financial Statements
May 31, 2007 and 2006

Use of Estimates

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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues and expenses during the reporting period. The Colleges' significant estimates made in the preparation of these financial statements include, but are not limited to, valuation of investments, estimation of asset retirement obligation, useful lives of fixed assets and estimated net realizable value of accounts and contributions receivable. Actual results could differ from these estimates.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported in the statement of financial position and the statement of activities.

Revision

Certain amounts have been revised within the statement of financial position and the statement of cash flows of the Colleges for the 2006 presentation. Specifically, a cash overdraft, previously included in cash and cash equivalents amounting to \$749,492 and \$328,106 as of May 31, 2006 and 2005, respectively, with one financial institution, was corrected to be reflected as a book overdraft liability in the statement of financial position. Accordingly, the 2006 beginning and ending cash balance on the statement of cash flows was revised to reflect this change with a corresponding increase in financing activities.

2. Contributions Receivable

Unconditional contributions receivable at May 31, 2007 and 2006 are restricted by donors predominantly for scholarships and capital projects. They are expected to be realized in the following periods:

	2007	2006
Less than one year	\$ 5,488,974	\$ 18,178,625
One year to five years	6,580,446	5,072,020
	<u>12,069,420</u>	<u>23,250,645</u>
Less allowance for uncollectibility of approximately \$741,000 and \$1,062,000 and present value discount of approximately \$520,000 and \$476,000	<u>(1,260,865)</u>	<u>(1,537,657)</u>
	10,808,555	21,712,988
Charitable remainder and perpetual trusts	<u>747,398</u>	<u>723,217</u>
	<u>\$ 11,555,953</u>	<u>\$ 22,436,205</u>

As of May 31, 2007 and 2006, the Colleges have received notification of bequest intentions totaling approximately \$13,779,000 and \$13,469,000, respectively.

The Colleges of the Seneca
Notes to Financial Statements
May 31, 2007 and 2006

3. Investments

Investments are summarized as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 18,039,568	\$ 18,039,568	\$ 8,468,895	\$ 8,468,895
Fixed income	9,210,253	9,022,903	24,290,887	23,636,233
Common stock	53,309,697	61,868,529	47,194,655	52,846,306
Limited partnerships	59,734,233	95,519,981	48,121,920	76,786,307
	<u>\$ 140,293,751</u>	<u>\$ 184,450,981</u>	<u>\$ 128,076,357</u>	<u>\$ 161,737,741</u>

Certain assets are pooled on a fair value basis; purchases or dispositions are at fair value per unit at the time in which the transaction takes place. The following table summarizes information on the pooled investments.

	2007	2006
Pooled investments		
Fair value	\$ 170,604,454	\$ 146,030,788
Cost	\$ 127,307,810	\$ 112,770,399
Fair value per unit	\$3.93	\$3.56
Spending rate per unit	0.17	0.16

In accordance with its spending policy on endowment and other investments the Colleges' return on investments was as follows:

	2007	2006
Dividends and interest income	\$ 4,999,083	\$ 4,621,709
Net realized and unrealized gains	22,260,969	15,090,749
Total return on investments	<u>27,260,052</u>	<u>19,712,458</u>
Investment return designated for current operations	9,264,575	8,225,920
Investment return greater than amounts designated for current operations	<u>\$ 17,995,477</u>	<u>\$ 11,486,538</u>

4. Endowment Funds

Endowment funds generally represent donor restricted gifts and matured bequests, to provide a permanent endowment, including a permanent income stream. The portion of permanent endowments that may not be expended are classified as permanently restricted net assets. Board designated endowments (i.e. funds functioning as endowments) are internally designated funds that are invested to provide income for a long but unspecified period. Board designated endowments are not donor restricted and are classified as unrestricted net assets.

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Endowment funds consist of:

	2007	2006
Funds functioning as endowment	\$ 81,539,982	\$ 67,396,626
Term endowment - temporarily restricted net assets	4,816,725	3,185,170
Permanent endowment - permanently restricted net assets	92,305,743	84,939,893
	<u>\$ 178,662,450</u>	<u>\$ 155,521,689</u>

These endowment funds include \$5,015,983 and \$6,087,755 in amounts pledged and not received in 2007 and 2006, respectively. Funds functioning as endowment are comprised of quasi endowment funds totaling \$16,190,041 and \$16,488,479 at May 31, 2007 and 2006, respectively, and cumulative appreciation of permanent endowment funds totalling \$65,349,941 and \$50,908,147 at May 31, 2007 and 2006, respectively.

5. Land, Buildings and Equipment

The components of land, buildings and equipment, as of May 31, 2007 and 2006 were as follows:

	2007	2006
Grounds	\$ 3,306,254	\$ 3,306,254
Site improvements	9,483,331	8,990,218
Buildings	118,184,312	111,279,463
Equipment	24,295,455	22,344,302
Library books	14,354,892	13,591,537
Construction in progress	4,743,125	3,282,844
	<u>174,367,369</u>	<u>162,794,618</u>
Accumulated depreciation	<u>(62,518,764)</u>	<u>(57,601,063)</u>
	<u>\$ 111,848,605</u>	<u>\$ 105,193,555</u>

Depreciation expense amounted to \$5,113,675 and \$4,816,837 in 2007 and 2006, respectively.

Estimated costs to complete construction in progress at May 31, 2007 are \$24,805,000.

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Notes to Financial Statements
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6. Borrowings

Borrowings consist of the following at May 31:

	Maturity Date	Interest Rate	Original Issue	2007	2006
City of Geneva Industrial Development Agency Revenue Bonds (a):					
Series 1997	2007	4.0 - 5.0%	\$ 18,065,000	\$ -	\$ 2,145,000
Series 2001	2031	4.0 - 5.2%	10,120,000	9,220,000	9,415,000
Series 2003A	2033	3.0 - 5.0%	20,000,000	19,985,000	20,000,000
Series 2003B	2023	4.8%	2,115,000	2,095,000	2,095,000
Net bond premium				<u>616,402</u>	<u>635,056</u>
				\$ 31,916,402	\$ 34,290,056
Manufacturers and Traders Trust Company Term Note (b)					
	2023	6.98%	3,420,000	<u>3,036,000</u>	<u>3,132,000</u>
				\$ 34,952,402	\$ 37,422,056

- (a) The bonds are collateralized by the related property and equipment.
- (b) Interest on the note is fixed at 6.98% through 2013, at which time the rate becomes variable at LIBOR plus 2% until maturity in 2023.

The following represents payments on bonds payable and term note:

2008	\$ 681,000
2009	742,000
2010	767,000
2011	797,000
2012	827,000
Thereafter	<u>30,522,000</u>
	34,336,000
Net bond premium	<u>616,402</u>
	<u>\$ 34,952,402</u>

Lines of Credit

The Colleges maintain a line of credit for \$1,000,000 which was unused during 2007 and 2006.

7. Student Loan Guarantees

The Colleges offer students a loan option through the Hobart and William Smith Loan Program. Loans are disbursed and administered by an outside lender. The Colleges guarantee the loans when certain conditions of default by the borrowers occur. A liability for an estimate of future guarantees is included in accounts payable and accrued liabilities of approximately \$235,000 and \$200,000 at May 31, 2007 and 2006, respectively.

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8. Net Tuition and Fees

Tuition and fees revenues and scholarship expenditures are summarized in the following table:

	2007	2006
Tuition and fees	\$ 66,866,272	\$ 60,934,987
Institutionally funded scholarships	(25,194,443)	(23,253,661)
Government funded grants	<u>(367,803)</u>	<u>(432,654)</u>
Net tuition and fees	<u>\$ 41,304,026</u>	<u>\$ 37,248,672</u>

9. Retirement Plan

The Colleges participate in contributory retirement plans administered by the Teachers Insurance Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF) for full-time employees. The Colleges' policy is to accrue the costs of these defined contribution plans currently. Total expense charged to operations relating to these plans was approximately \$2,322,000 and \$2,213,000 for 2007 and 2006, respectively.

The Colleges implemented a phased retirement plan and a retirement plan with postretirement healthcare benefits for faculty. Eligible faculty who elect retirement under the plan with postretirement healthcare benefits and are between the ages of 60 and 65 receive healthcare coverage through the Colleges until they are Medicare eligible. Beginning June 1, 2002 eligible faculty may elect retirement under the plan by June 30 to commence June 30 of the following year (i.e. one year notice).

10. Fair Value of Financial Instruments

Cash

The carrying amount of cash approximates fair value.

Bonds Payable

The following represents estimated fair value of the Colleges' bonds payable at May 31, 2007:

	Carrying Value	Fair Value
Series 2001	\$ 9,220,000	\$ 9,613,115
Series 2003A	19,985,000	21,089,828
Series 2003B	<u>2,095,000</u>	<u>2,155,650</u>
	<u>\$ 31,300,000</u>	<u>\$ 32,858,593</u>

Notes Receivable

Notes receivable are principally amounts due from students under federally sponsored loan programs which are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

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11. Insured Risks

The Colleges participate in the New York College and University Risk Management Group Trust (the "Trust"). The Trust pays claims and judgments relating to workers' compensation. The Trust charges the Colleges an annual amount based upon the overall experience of the Trust, including experience specific to the Colleges. The amount of the Colleges' liability for estimated workers' compensation claims is approximately \$22,000 and \$0 at May 31, 2007 and 2006, respectively.