The Colleges of the Seneca

Financial Statements
May 31, 2008 and 2007

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1100 Bausch & Lomb Place
Rochester NY 14604-2705
Telephone (585) 232 4000
Facsimile (585) 454 6594

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, 2008 and 2007, 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.

PricewaterhouseCoopers LLP

October 24, 2008

The Colleges of the Seneca
Statements of Financial Position
May 31, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 1,199,326	$ 34,458,402
Short-term investments	38,503,653	4,615,180
Deposits with trustee of debt obligations	14,087,461	-
Accounts receivable, net of allowance of $264,000 and $355,000 in 2008 and 2007, respectively	1,032,637	1,090,499
Notes receivable, net of allowance of $128,000 in 2008 and 2007	1,908,933	1,649,638
Inventories	513,040	494,003
Contributions receivable	16,267,441	11,555,953
Long-term investments	185,366,996	179,835,801
Land, buildings and equipment, net	131,646,876	111,848,605
Other assets	3,083,011	2,230,221
Total assets	$ 393,609,374	$ 347,778,302
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 7,622,759	$ 7,387,740
Cash overdraft	-	1,549,645
Deferred revenue and deposits	2,263,313	2,788,179
Deferred giving liabilities	2,140,431	2,125,946
Refundable advances from government loan programs	2,165,977	2,187,285
Asset retirement obligations	1,927,634	1,839,855
Fair value of swap agreement	2,559,316	-
Borrowings	65,498,127	34,952,402
Total liabilities	84,177,557	52,831,052
Net assets		
Unrestricted	164,777,955	164,298,790
Temporarily restricted	41,868,098	37,180,147
Permanently restricted	102,785,764	93,468,313
Total net assets	309,431,817	294,947,250
Total liabilities and net assets	$ 393,609,374	$ 347,778,302

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

The Colleges of the Seneca
Statement of Activities
Year Ended May 31, 2008
(with comparative totals for 2007)

	2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2007 Total
Operating Revenues					
Tuition and fees, net of scholarships	$ 44,890,566	$ -	$ -	$ 44,890,566	$ 41,304,026
Sales and services of auxiliaries	18,228,484	-	-	18,228,484	16,879,378
Government grants and contracts	2,845,842	-	-	2,845,842	1,912,447
Private gifts and grants	4,964,677	317,033	-	5,281,710	5,953,073
Endowment spending	6,772,058	178,287	-	6,950,345	6,930,089
Other investment income	1,938,420	134,808	-	2,073,228	2,334,486
Other	271,214	24,639	-	295,853	246,039
Net assets released from restrictions	194,069	(194,069)	-	-	-
Total operating revenues	80,105,330	460,698	-	80,566,028	75,559,538
Operating Expenses					
Instruction	25,930,260	-	-	25,930,260	24,317,121
Academic support	8,231,266	-	-	8,231,266	8,024,030
Student services	17,793,466	-	-	17,793,466	15,416,518
Institutional support	12,259,917	-	-	12,259,917	12,377,998
Auxiliaries operations	13,817,956	-	-	13,817,956	12,719,996
Total operating expenses	78,032,865	-	-	78,032,865	72,855,663
Change in net assets from operating activities	2,072,465	460,698	-	2,533,163	2,703,875
Nonoperating Revenues (Expenses)					
Investment return	(4,260,136)	(3,691)	(134,704)	(4,398,531)	17,995,477
Capital gifts	399,867	10,642,095	8,574,674	19,616,636	12,443,691
Capital campaign expense	(918,018)	-	-	(918,018)	(1,893,520)
Other (expense) revenue, net	14,137	-	-	14,137	(74,238)
Change in value of deferred giving arrangements	-	(680,985)	877,481	196,496	284,289
Change in fair value of swap agreement	(2,559,316)			(2,559,316)	-
Net assets released from restrictions	5,730,166	(5,730,166)		-	-
Change in net assets from nonoperating activities	(1,593,300)	4,227,253	9,317,451	11,951,404	28,755,699
Increase in net assets	479,165	4,687,951	9,317,451	14,484,567	31,459,574
Net assets					
Beginning of year	164,298,790	37,180,147	93,468,313	294,947,250	263,487,676
End of year	$ 164,777,955	$ 41,868,098	$ 102,785,764	$ 309,431,817	$ 294,947,250

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

The Colleges of the Seneca
Statement of Activities
Year Ended May 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees,				
net of scholarships	$ 41,304,026	$ -	$ -	$ 41,304,026
Sales and services of auxiliaries	16,879,378	-	-	16,879,378
Government grants and contracts	1,912,447	-	-	1,912,447
Private gifts and grants	5,748,189	204,884	-	5,953,073
Endowment spending	6,767,841	162,248	-	6,930,089
Other investment income	2,132,918	201,568	-	2,334,486
Other	246,039	-	-	246,039
Net assets released from restrictions	179,595	(179,595)	-	-
Total operating revenues	75,170,433	389,105	-	75,559,538
Operating Expenses				
Instruction	24,317,121	-	-	24,317,121
Academic support	8,024,030	-	-	8,024,030
Student services	15,416,518	-	-	15,416,518
Institutional support	12,377,998	-	-	12,377,998
Auxiliaries operations	12,719,996	-	-	12,719,996
Total operating expenses	72,855,663	-	-	72,855,663
Change in net assets from operating activities	2,314,770	389,105	-	2,703,875
Nonoperating Revenues (Expenses)				
Investment return	16,085,219	1,570,079	340,179	17,995,477
Capital gifts	231,583	5,519,710	6,692,398	12,443,691
Capital campaign expense	(1,893,520)	-	-	(1,893,520)
Other (expense) revenue, net	(74,238)	-	-	(74,238)
Change in value of deferred				
giving arrangements	-	(336,014)	620,303	284,289
Net assets released from restrictions	3,871,263	(3,871,263)	-	-
Change in net assets from nonoperating activities	18,220,307	2,882,512	7,652,880	28,755,699
Increase in net assets	20,535,077	3,271,617	7,652,880	31,459,574
Net assets				
Beginning of year	143,763,713	33,908,530	85,815,433	263,487,676
End of year	$ 164,298,790	$ 37,180,147	$ 93,468,313	$ 294,947,250

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

The Colleges of the Seneca
Statements of Cash Flows
Years Ended May 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	$ 14,484,567	$ 31,459,574
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	5,440,423	5,271,560
Provision for uncollectible contributions receivable	497,918	261,109
Loss on disposal of land, buildings and equipment	11,785	31,001
Change in value of deferred giving arrangements	14,485	(63,583)
Change in fair value of swap agreement	2,559,316	-
Receipt of contributed securities	(2,711,609)	(4,347,223)
Contributions restricted for long-term investment	(10,267,092)	(20,574,757)
Interest and dividends restricted for long-term investment	(148,122)	(136,196)
Net realized and unrealized gains on investments	(904,866)	(22,260,969)
Change in assets and liabilities:		
Accounts receivable	57,862	158,361
Inventories	(19,037)	(18,883)
Contributions receivable	(5,209,406)	10,619,143
Other assets	381,254	(317,111)
Accounts payable and accrued liabilities	523,018	(121,401)
Asset retirement obligations	3,008	8,547
Deferred revenues and deposits	(524,866)	(29,886)
Net cash provided by (used in) operating activities	4,188,638	(60,714)
Cash flows from investing activities		
Acquisition of land, buildings and equipment, net	(25,436,026)	(11,084,917)
Increase in deposits with trustee of debt obligation	(14,087,461)	-
Notes issued	(485,712)	(378,528)
Proceeds from note collections	226,417	414,104
Proceeds from sale and maturities of investments	156,962,727	97,939,356
Purchases of investments	(192,765,920)	(94,044,404)
Net cash used in investing activities	(75,585,975)	(7,154,389)
Cash flows from financing activities		
Proceeds from contributions for		
Investment in endowment	6,839,106	6,363,756
Investment in plant	3,115,801	14,007,586
Investment subject to deferred giving arrangements	312,185	203,415
Interest and dividends restricted for reinvestment	148,122	136,196
(Decrease) increase in cash overdraft	(1,549,645)	800,153
Decrease in refundable advances from government loan programs	(21,308)	(15,903)
Proceeds from issuance of long term debt	31,250,000	-
Bond issuance costs	(1,275,000)	-
Payment of long-term debt	(681,000)	(2,451,000)
Net cash provided by financing activities	38,138,261	19,044,203
Net (decrease) increase in cash and cash equivalents	(33,259,076)	11,829,100
Cash and cash equivalents		
Beginning of year	34,458,402	22,629,302
End of year	$ 1,199,326	$ 34,458,402
Supplemental data		
Interest paid including capitalized interest of $103,812 in 2008	$ 2,253,319	$ 1,916,252
Gifts in kind	-	131,300
Noncash activities		
Construction related payables	(287,999)	714,809
Stock gifts and contributions	2,711,609	4,347,223

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

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.

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.

Costs incurred by the Colleges in obtaining donor contributions were approximately $3,022,000 and $3,910,000 in 2008 and 2007, respectively. Approximately $918,000 and $1,894,000 for 2008 and 2007, 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, 2008 and 2007. The Colleges believe that the recorded amount of these limited partnership investments is a reasonable estimate of fair value.

Investment securities are exposed to various risks, such as interest rates, market, economic conditions, world affairs and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in their value could occur in the near term and such changes could materially affect the amounts reported in the investments and investment activity of the Colleges.

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, 2008, the Colleges had commitments of approximately $12,975,000 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 $1,550,000 and $1,565,000 for 2008 and 2007, respectively and performance fees of approximately, $655,000 and $806,000, for 2008 and 2007, 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 5.0% and 5.1% in 2008 and 2007, 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 $5,163,000 and $5,562,000 are included in long-term investments at their fair value as of May 31, 2008 and 2007, 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.

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.

Effective June 1, 2007, the Colleges adopted FASB Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes* – an Interpretation of SFAS No. 109, *Accounting for Income Taxes*. The adoption did not have a material effect on the Colleges’ financial statements.

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. Accretion of the liability for the year ended May 31, 2008 was approximately $85,000.

Deposits with Trustee of Debt Obligations
Deposits with trustee of debt obligations represent debt service and certain reserve funds required by the trustee. Included in deposits with trustee is approximately $14,100,000 of unexpended bond proceeds resulting from the City of Geneva Industrial Development Agency Revenue Bonds Series 2007 which are held in Trust for the benefit of the Colleges and released according to the terms and conditions of the loan documents. The bond proceeds are to be utilized to fund building and campus renovation projects.

Derivative Instruments and Hedging Activities
A derivative instrument related to the Colleges' long-term debt is included in the fair value of the swap agreement on the balance sheet. The change in the fair value of the derivative instrument is included in nonoperating revenue (expenses) in the statement of activities. The Colleges selected the combination of a variable rate bond issue and an interest rate swap agreement to obtain fixed rate financing at the lowest available cost at the time of the transaction. The Colleges are exposed to credit loss in the event of nonperformance by the counterparty to its long-term rate swap. The interest rate swap does not qualify for cash flow hedge accounting.

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.

New Authoritative Pronouncements
In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for fiscal years beginning after November 15, 2007 except for certain provisions, which were deferred for an additional year. Management is presently evaluating the impact of this pronouncement but does not believe the adoption of SFAS 157 will have a material impact on the financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). The standard permits entities to choose to measure many financial instruments and certain other items at fair value. The standard is effective for fiscal years beginning after November 15, 2007. Management is presently evaluating the impact of this pronouncement but does not believe adoption of SFAS 159 will have a material impact on the financial statements.

Revision
Certain amounts in previously issued financial statements have been revised to conform to the current year presentation.

During fiscal year 2008, the Colleges reviewed certain activity related to contributed securities and determined that $4,347,223 should have been treated as noncash activity within the statement of cash flows at May 31, 2007. The impact of the revision was a reduction of $2,631,486 in cash flows from operating activities, a reduction of $1,715,737 in cash flows from financing activities, and a reduction of $4,347,223 in cash flows used in investing activities. The statement of financial position and the statement of activities for fiscal 2007 were not impacted as a result of this adjustment. The Colleges has reflected this transaction in their financial statements as of May 31, 2007 within the financial statements issued for May 31, 2008 for comparative purposes.

2. Contributions Receivable

Unconditional contributions receivable at May 31, 2008 and 2007 are restricted by donors predominantly for scholarships and capital projects. They are expected to be realized in the following periods:

	2008	2007
Less than one year	$ 11,659,982	$ 5,488,974
One year to five years	5,334,524	6,580,446
	16,994,506	12,069,420
Less allowance for uncollectibility of approximately $1,213,000 and $741,000 and present value discount of approximately $313,000 and $520,000	(1,526,205)	(1,260,865)
	15,468,301	10,808,555
Charitable remainder and perpetual trusts	799,140	747,398
	$ 16,267,441	$ 11,555,953

As of May 31, 2008 and 2007, the Colleges have received notification of bequest intentions totaling approximately $14,510,000 and $13,779,000, respectively.

3. Investments

Investments are summarized as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 23,236,786	$ 23,236,786	$ 18,039,568	$ 18,039,568
Fixed income	42,489,086	42,469,763	9,210,253	9,022,903
Common stock	49,869,944	53,760,715	53,309,697	61,868,529
Limited partnerships	78,889,586	104,403,385	59,734,233	95,519,981
	$ 194,485,402	$ 223,870,649	$ 140,293,751	$ 184,450,981

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.

	2008	2007
Pooled investments		
Fair value	$ 176,546,497	$ 170,604,454
Cost	$ 147,796,421	$ 127,307,810
Fair value per unit	$3.92	$3.93
Spending rate per unit	0.17	0.17

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

	2008	2007
Dividends and interest income	$ 3,720,176	$ 4,999,083
Net realized and unrealized gains	904,866	22,260,969
Total return on investments	4,625,042	27,260,052
Investment return designated for current operations	9,023,573	9,264,575
Investment return (less than) greater than amounts designated for current operations	$ (4,398,531)	$ 17,995,477

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.

Endowment funds consist of:

	2008	2007
Funds functioning as endowment	$ 78,492,622	$ 81,539,982
Term endowment - temporarily restricted net assets	4,715,880	4,816,725
Permanent endowment - permanently restricted net assets	101,875,404	92,305,743
	$ 185,083,906	$ 178,662,450

These endowment funds include $5,609,242 and $5,015,983 in amounts pledged and not received in 2008 and 2007, respectively. Funds functioning as endowment are comprised of quasi endowment funds totaling $17,671,970 and $16,190,041 at May 31, 2008 and 2007, respectively, and cumulative appreciation of permanent endowment funds totaling $60,820,652 and $65,349,941 at May 31, 2008 and 2007, respectively.

5. Land, Buildings and Equipment

The components of land, buildings and equipment, as of May 31, 2008 and 2007 were as follows:

	2008	2007
Grounds	$ 3,306,254	$ 3,306,254
Site improvements	10,028,591	9,483,331
Buildings	120,596,160	118,184,312
Equipment	26,258,029	24,295,455
Library books	15,168,492	14,354,892
Construction in progress	24,068,091	4,743,125
	199,425,617	174,367,369
Accumulated depreciation	(67,778,741)	(62,518,764)
	$ 131,646,876	$ 111,848,605

Depreciation expense amounted to $5,337,971 and $5,113,675 in 2008 and 2007, respectively.

Estimated costs to complete construction in progress at May 31, 2008 are $32,447,000.

6. Borrowings

Borrowings consist of the following at May 31:

	Maturity Date	Interest Rate	Original Issue	2008	2007
City of Geneva Industrial Development Agency Revenue Bonds:					
Series 2001 (a)	2031	4.0 - 5.2%	10,120,000	9,020,000	9,220,000
Series 2003A (a)	2033	3.0 - 5.0%	20,000,000	19,600,000	19,985,000
Series 2003B (a)	2023	4.8%	2,115,000	2,095,000	2,095,000
Series 2007 (b)	2037	Variable	31,250,000	31,250,000	
Net bond premium				593,127	616,402
				$ 62,558,127	$ 31,916,402
Manufacturers and Traders Trust Company					
Term Note (c)	2023	6.98%	3,420,000	2,940,000	3,036,000
				$ 65,498,127	$ 34,952,402

(a) The bonds are collateralized by the related property and equipment.

(b) In December 2007, the Colleges issued $31,250,000 of Series 2007 City of Geneva Industrial Development Agency Multi-Modal Civic Facility Revenue Bonds. The proceeds of the bonds are being used to finance various building and renovation projects. The bonds were issued as Variable Rate Demand bonds and the interest rate is determined every 7 days. Interest is payable monthly and the rates paid during the fiscal year ended May 31, 2008 ranged from 1.25% to 8.50%. The bonds mature in 2037.

The Series 2007 bonds are guaranteed by a bond insurance policy. The bond insurance policy unconditionally and irrevocably guarantees the full and complete payment required to be made (refer to Note 12).

(c) 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:

2009	$ 742,000
2010	767,000
2011	797,000
2012	827,000
2013	617,000
Thereafter	61,155,000
	64,905,000
Net bond premium	593,127
	$ 65,498,127

Interest Rate Swap
On June 18, 2007, the Colleges entered into an interest rate swap agreement with an effective date of December 4, 2007 and a maturity date of December 1, 2037. Neither the Colleges nor the counterparty, which is a prominent financial investment institution, are required to collateralize their respective obligations under this swap. The purpose of this swap is to fix the interest rate on a portion of variable rate debt and reduce certain exposures to interest rate fluctuations. At May 31, 2008, the notional amount of the swap was $31,250,000. Under the agreement, the Colleges will pay the counterparty interest at a fixed rate of 4.0% until maturity. The notional amount does not represent an amount exchanged by the parties, and is thus not a measure of exposure of the Colleges. The amounts exchanged are based on the notional amounts and other terms of the swap. The Colleges have recognized $236,284 as part of interest expense which represents the net cash payment for the difference between the Colleges' and the counterparty's payments under the swap. At May 31, 2008, the Colleges recognized a decrease in net assets of $2,559,316, and a related increase in liabilities on the statement of financial position.

Lines of Credit
The Colleges maintain a line of credit for $1,000,000 which was unused during 2008 and 2007.

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 $208,000 and $235,000 at May 31, 2008 and 2007, respectively. The maximum potential amount of undiscounted future payments that the Colleges could be required to make under this program is approximately $2,200,000.

8. Net Tuition and Fees

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

	2008	2007
Tuition and fees	$ 72,943,181	$ 66,866,272
Institutionally funded scholarships	(27,693,130)	(25,194,443)
Government funded grants	(359,485)	(367,803)
Net tuition and fees	$ 44,890,566	$ 41,304,026

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 $2,549,000 and $2,322,000 for 2008 and 2007, 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, 2008:

	Carrying Value	Fair Value
Series 2001	$ 9,020,000	$ 9,376,722
Series 2003A	19,600,000	20,592,914
Series 2003B	2,095,000	2,136,911
Series 2007	31,250,000	31,250,000
	$ 61,965,000	$ 63,356,547

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.

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 $103,000 and $22,000 at May 31, 2008 and 2007, respectively.

12. Subsequent Events

On September 4, 2008, the Colleges entered into a letter of credit with a financial institution and converted the Series 2007 bonds from insured and liquidity facility enhanced Variable Rate Demand bonds to Variable Rate Demand bonds that are enhanced by the letter of credit. The letter of credit was issued in the amount of $31,599,316 and will remain in effect until notice that the outstanding bonds have been repaid, the related bonds have been converted to an interest rate other than a Daily Rate or Weekly Rate, or a substitute Credit Agreement or Liquidity Facility has been put in place. The letter of credit expires on September 3, 2009.

The Colleges invest excess cash with the Commonfund Short Term Investments Fund ("STF"), a bank commingled fund using Wachovia Bank N.A as trustee (the "Trustee"), and sponsored by The Commonfund for Nonprofits. Historically, Management's policy for defining cash and cash equivalents has included amounts invested in the STF. On September 29, 2008, the Trustee notified Commonfund and the fund participants that it was exercising its right to initiate the termination of the STIF, impose liquidity restrictions thereon, and establish procedures for an orderly liquidation and distribution of the fund's assets. As a result of these events and the resulting restriction on redemptions, the Colleges determined that as of September 29, 2008, assets in the STF no longer qualified for reporting as cash equivalents. In the interest of transparency, management determined to give effect to this change in classification retroactive to May 31, 2008. Thus, $33,506,164 of STF funds which historically would have been included in cash and cash equivalents at May 31, 2008 were reclassified to short term investments on the balance sheet, and the statement of cash flows for the year ended May 31, 2008 reflects a purchase of an investment to reflect this reclassification. The timing and amount of distributions is dependent on the sale or maturity of the STF's underlying investments, and the liquidity of markets into which those investments may be sold.