The Colleges of the Seneca

Financial Statements
May 31, 2009 and 2008

The Colleges of the Seneca
Index
May 31, 2009 and 2008

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, 2009 and 2008, 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 described in Note 5 to the accompanying financial statements, as of June 1, 2008, the Colleges adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*.

PricewaterhouseCoopers LLP

February 9, 2010

The Colleges of the Seneca
Statements of Financial Position
May 31, 2009 and 2008

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	2009	2008
Assets		
Cash and cash equivalents	$ 18,048,803	$ 1,199,326
Short-term investments	10,573,762	38,503,653
Deposits with trustee of debt obligations	7,626,158	14,087,461
Accounts receivable, net of allowance of $335,000 and $264,000 in 2009 and 2008, respectively	3,299,693	1,032,637
Notes receivable, net of allowance of $128,000 in 2009 and 2008	2,175,237	1,908,933
Inventories	504,386	513,040
Contributions receivable	14,973,022	16,267,441
Long-term investments	141,432,280	185,366,996
Land, buildings and equipment, net	138,603,427	131,646,876
Other assets	1,697,886	3,083,011
Total assets	$ 338,934,654	$ 393,609,374
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 5,742,758	$ 7,622,759
Cash overdraft	175,849	-
Deferred revenue and deposits	2,250,181	2,263,313
Deferred giving liabilities	1,995,197	2,140,431
Refundable advances from government loan programs	2,126,971	2,165,977
Asset retirement obligations	2,016,475	1,927,634
Fair value of swap agreement	5,439,670	2,559,316
Borrowings	64,194,852	65,498,127
Total liabilities	83,941,953	84,177,557
Net assets		
Unrestricted	127,411,227	164,777,955
Temporarily restricted	24,274,228	41,868,098
Permanently restricted	103,307,246	102,785,764
Total net assets	254,992,701	309,431,817
Total liabilities and net assets	$ 338,934,654	$ 393,609,374

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

The Colleges of the Seneca
Statement of Activities
Year Ended May 31, 2009
(with comparative totals for 2008)

	2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2008 Total
Operating Revenues					
Tuition and fees, net of scholarships	$ 48,270,916	$ -	$ -	$ 48,270,916	$ 44,890,566
Sales and services of auxiliaries	19,228,202	-	-	19,228,202	18,228,484
Government grants and contracts	2,764,958	-	-	2,764,958	2,845,842
Private gifts and grants	8,009,239	9,643	-	8,018,882	5,281,710
Endowment spending	7,028,792	791,608	-	7,820,400	6,950,345
Other investment income	609,849	45,468	-	655,317	2,073,228
Other	244,623	200	-	244,823	295,853
Net assets released from restrictions	323,953	(323,953)	-	-	-
Total operating revenues	86,480,532	522,966	-	87,003,498	80,566,028
Operating Expenses					
Instruction	27,870,178	-	-	27,870,178	25,930,260
Academic support	9,070,959	-	-	9,070,959	8,231,266
Student services	18,756,792	-	-	18,756,792	17,793,466
Institutional support	17,517,514	-	-	17,517,514	12,259,917
Auxiliaries operations	15,429,806	-	-	15,429,806	13,817,956
Total operating expenses	88,645,249	-	-	88,645,249	78,032,865
Change in net assets from operating activities	(2,164,717)	522,966	-	(1,641,751)	2,533,163
Nonoperating Revenues (Expenses)					
Investment return	(45,859,338)	(4,925,682)	(418,956)	(51,203,976)	(4,398,531)
Capital gifts	369,948	2,598,702	844,851	3,813,501	19,616,636
Capital campaign expense	(1,075,016)	-	-	(1,075,016)	(918,018)
Loss on early extinguishment of debt	(1,275,000)	-	-	(1,275,000)	-
Other (expense) revenue, net	(3,480)	-	-	(3,480)	14,137
Change in value of deferred giving arrangements	-	(268,627)	95,587	(173,040)	196,496
Change in fair value of swap agreement	(2,880,354)	-	-	(2,880,354)	(2,559,316)
Net assets released from restrictions	15,521,229	(15,521,229)	-	-	-
Change in net assets from nonoperating activities	(35,202,011)	(18,116,836)	521,482	(52,797,365)	11,951,404
(Decrease) increase in net assets	(37,366,728)	(17,593,870)	521,482	(54,439,116)	14,484,567
Net assets					
Beginning of year	164,777,955	41,868,098	102,785,764	309,431,817	294,947,250
End of year	$ 127,411,227	$ 24,274,228	$ 103,307,246	$ 254,992,701	$ 309,431,817

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

The Colleges of the Seneca
Statement of Activities
Year Ended May 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees,				
net of scholarships	$ 44,890,566	$ -	$ -	$ 44,890,566
Sales and services of auxiliaries	18,228,484	-	-	18,228,484
Government grants and contracts	2,845,842	-	-	2,845,842
Private gifts and grants	4,964,677	317,033	-	5,281,710
Endowment spending	6,772,058	178,287	-	6,950,345
Other investment income	1,938,420	134,808	-	2,073,228
Other	271,214	24,639	-	295,853
Net assets released from restrictions	194,069	(194,069)	-	-
Total operating revenues	80,105,330	460,698	-	80,566,028
Operating Expenses				
Instruction	25,930,260	-	-	25,930,260
Academic support	8,231,266	-	-	8,231,266
Student services	17,793,466	-	-	17,793,466
Institutional support	12,259,917	-	-	12,259,917
Auxiliaries operations	13,817,956	-	-	13,817,956
Total operating expenses	78,032,865	-	-	78,032,865
Change in net assets				
from operating activities	2,072,465	460,698	-	2,533,163
Nonoperating Revenues (Expenses)				
Investment return	(4,260,136)	(3,691)	(134,704)	(4,398,531)
Capital gifts	399,867	10,642,095	8,574,674	19,616,636
Capital campaign expense	(918,018)	-	-	(918,018)
Other (expense) revenue, net	14,137	-	-	14,137
Change in value of deferred				
giving arrangements	-	(680,985)	877,481	196,496
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
Increase in net assets	479,165	4,687,951	9,317,451	14,484,567
Net assets				
Beginning of year	164,298,790	37,180,147	93,468,313	294,947,250
End of year	$ 164,777,955	$ 41,868,098	$ 102,785,764	$ 309,431,817

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

The Colleges of the Seneca
Statements of Cash Flows
Years Ended May 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	$ (54,439,116)	$ 14,484,567
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	6,638,844	5,440,423
Loss on early extinguishment of debt	1,275,000	-
Provision for uncollectible contributions receivable	2,068,017	497,918
Loss on disposal of land, buildings and equipment	31,479	11,785
Change in value of deferred giving arrangements	(145,234)	14,485
Change in fair value of swap agreement	2,880,354	2,559,316
Receipt of contributed securities	(495,758)	(2,711,609)
Contributions restricted for long-term investment	(5,525,542)	(10,267,092)
Interest and dividends restricted for long-term investment	(2,762,821)	(148,122)
Net realized and unrealized gains on investments	45,109,512	(904,866)
Change in assets and liabilities:		
Accounts receivable	(2,267,056)	57,862
Inventories	8,654	(19,037)
Contributions receivable	(773,598)	(5,209,406)
Other assets	285,208	381,254
Accounts payable and accrued liabilities	(633,782)	523,018
Asset retirement obligations	-	3,008
Deferred revenues and deposits	(13,132)	(524,866)
Net cash (used in) provided by operating activities	(8,758,971)	4,188,638
Cash flows from investing activities		
Acquisition of land, buildings and equipment, net	(14,766,571)	(25,436,026)
Increase in deposits with trustee of debt obligation	6,461,303	(14,087,461)
Notes issued	(440,439)	(485,712)
Proceeds from note collections	174,135	226,417
Proceeds from sale and maturities of investments	73,791,235	156,962,727
Purchases of investments	(46,559,718)	(192,765,920)
Net cash provided by (used in) investing activities	18,659,945	(75,585,975)
Cash flows from financing activities		
Proceeds from contributions for		
Investment in endowment	3,736,985	6,839,106
Investment in plant	9,151	3,115,801
Investment subject to deferred giving arrangements	1,779,406	312,185
Interest and dividends restricted for reinvestment	2,782,157	148,122
Increase (decrease) in cash overdraft	175,849	(1,549,645)
Decrease in refundable advances from government loan programs	(39,006)	(21,308)
Proceeds from issuance of long term debt	31,250,000	31,250,000
Bond issuance costs	(216,039)	(1,275,000)
Payment of long-term debt	(32,530,000)	(681,000)
Net cash provided by financing activities	6,948,503	38,138,261
Net increase (decrease) in cash and cash equivalents	16,849,477	(33,259,076)
Cash and cash equivalents		
Beginning of year	1,199,326	34,458,402
End of year	$ 18,048,803	$ 1,199,326
Supplemental data		
Interest paid including capitalized interest of $131,003 and $131,812 in 2009 and 2008, respectively	$ 2,631,662	$ 2,253,319
Noncash activities		
Construction related payables	(1,246,219)	(287,999)
Stock gifts and contributions	495,758	2,711,609

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 $3,661,000 and $3,022,000 in 2009 and 2008, respectively. Approximately $1,075,000 and $918,000 for 2009 and 2008, respectively, of those costs were associated with the activities of the current capital campaign.

Investments and Investment Income
Investments are recorded at fair value as described in Note 5.

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, 2009, the Colleges had commitments of approximately $8,318,000 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 $1,640,000 and $1,550,000 for 2009 and 2008, respectively and performance fees of approximately, $8,000 and $655,000, for 2009 and 2008, respectively.

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 $3,905,000 and $5,163,000 are included in long-term investments at their fair value as of May 31, 2009 and 2008, 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.

Deferred Financing Costs
The Colleges have capitalized certain deferred financing costs and are amortizing them over the term of the related debt instrument. Amortization expense in 2009 and 2008 was $40,956.

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, 2009 was approximately $89,000.

The following is a summary of the components of the asset retirement obligation:

	2009	2008
Change in Asset Retirement Obligations		
Asset retirement obligation at beginning of year	$ 1,927,634	$ 1,839,855
Asbestos liabilities incurred	-	3,008
Accretion expense	88,841	84,771
Asset retirement obligation at end of year	$ 2,016,475	$ 1,927,634

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 $7,626,000 and $14,100,000 at May 31, 2009 and 2008, respectively, 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.

2. Contributions Receivable

Unconditional contributions receivable at May 31, 2009 and 2008 are restricted by donors predominantly for scholarships and capital projects. They are expected to be realized in the following periods:

	2009	2008
Less than one year	$ 12,101,804	$ 11,659,982
One year to five years	5,592,292	5,334,524
	17,694,096	16,994,506
Less allowance for uncollectibility of approximately $3,231,000 and $1,213,000 and present value discount of approximately $197,000 and $313,000	(3,428,231)	(1,526,205)
	14,265,865	15,468,301
Charitable remainder and perpetual trusts	707,157	799,140
	$ 14,973,022	$ 16,267,441

As of May 31, 2009 and 2008, the Colleges have received notification of bequest intentions totaling approximately $15,448,000 and $14,510,000, respectively.

3. Investments

Investments are summarized as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 24,049,766	$ 24,049,766	$ 23,236,786	$ 23,236,786
Fixed income and government securities	14,531,923	14,371,801	42,489,086	42,469,763
Common and preferred stocks	15,857,984	17,616,416	23,122,494	25,591,113
Mutual funds	21,734,023	15,152,410	25,163,992	26,421,990
Real estate	6,880,908	6,394,057	4,699,087	5,145,154
Private equity	9,197,318	8,143,026	7,050,000	7,155,528
Hedge	53,576,646	59,329,888	62,656,895	87,705,976
Other	8,275,259	6,948,678	6,067,162	6,144,339
	$ 154,103,827	$ 152,006,042	$ 194,485,502	$ 223,870,649

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

	2009	2008
Dividends and interest income	$ 2,381,253	$ 3,720,176
Net realized and unrealized (losses) gains	(45,109,512)	904,866
Total return on investments	(42,728,259)	4,625,042
Investment return designated for current operations	8,475,717	9,023,573
Investment return (less than) amounts designated for current operations	$ (51,203,976)	$ (4,398,531)

4. Endowment Funds

Endowment funds are long-term assets of the Colleges created either by donor gifts or by actions of the Board of Trustees. Their purpose is to generate, in perpetuity, operating revenue for specific activities or for the use of the Colleges'. Endowment funds are invested under direction of the Board of Trustees to achieve maximum long-term total return with prudent concern for the preservation of investment capital. All investments of endowment funds are recorded in the statement of financial position as long-term investments, including cash balances held by external investment managers. The fair value of endowment investments (separately invested and pooled) was $140,856,221 and $185,083,906 as of May 31, 2009 and 2008, respectively.

The Board of Trustees determines the appropriate amount to withdraw from endowment funds on an annual basis, to provide support for operations with prudent concern for the long-term growth in the underlying assets. 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% in 2009 and 2008. 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.

During fiscal 2009, the Colleges adopted FASB Staff Position (FSP) FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds." The FSP applies to not-for-profit organizations with donor-restricted endowment funds and is effective for fiscal years ending after December 15, 2008. The information provided below regarding the Colleges' interpretation of the relevant law and the composition of the endowment and similar funds has been included to comply with the disclosure requirements of FSP FAS 117-1.

The Colleges' Board of Trustees has interpreted New York State's Not-for-Profit Corporation Law as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Colleges classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unspent appropriations related to the donor restricted endowment fund are classified as temporarily restricted net assets until the amounts are expended by the Colleges in a manner consistent with the donor's intent. The remaining portion of the donor-restricted endowment fund that is not classified as permanently or temporarily restricted net assets is classified as unrestricted net assets.

The following table provides the net asset composition of the endowment as of May 31, 2009 and a rollforward of the net assets from June 1, 2008 to May 31, 2009.

-	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 1,332,375	$ 102,839,042	$ 104,171,417
Funds functioning as endowment	36,684,804	-	-	36,684,804
	$ 36,684,804	$ 1,332,375	$ 102,839,042	$ 140,856,221

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 78,492,622	$ 4,715,880	$ 101,875,404	$ 185,083,906
Investment return	(35,295,633)	(3,709,993)	73,941	(38,931,685)
Capital gifts	371,314	1,118,096	833,393	2,322,803
Other changes	145,293		56,304	201,597
Endowment spending	(7,028,792)	(791,608)		(7,820,400)
Endowment net assets, end of year	$ 36,684,804	$ 1,332,375	$ 102,839,042	$ 140,856,221

The following table provides the net asset composition of the endowment as of May 31, 2008 and a rollforward of the net assets from June 1, 2007 to May 31, 2008.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 4,715,880	$ 101,875,404	$ 106,591,284
Funds functioning as endowment	78,492,622	-	-	78,492,622
	$ 78,492,622	$ 4,715,880	$ 101,875,404	$ 185,083,906

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 81,539,982	$ 4,816,725	$ 92,305,743	$ 178,662,450
Investment return	3,543,194	77,442	77,501	3,698,137
Capital gifts	(26,950)	-	8,515,369	8,488,419
Other changes	208,454	-	976,791	1,185,245
Endowment spending	(6,772,058)	(178,287)	-	(6,950,345)
Endowment net assets, end of year	$ 78,492,622	$ 4,715,880	$ 101,875,404	$ 185,083,906

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

	2009	2008
Pooled investments		
Fair value	$ 134,024,291	$ 176,546,497
Cost	$ 135,401,019	$ 147,796,421
Fair value per unit	$ 2.86	$ 3.92
Spending rate per unit	0.18	0.17

As a result of market declines, the fair market value of certain donor-restricted endowments is less than the historical cost value of such funds by $9,587,551 at May 31, 2009. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets. While it is the intent of the Colleges to restore this deficiency from future gains, there is no legal obligation to do so.

5. Fair Value

Effective June 1, 2008, the Colleges adopted Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement data.

The provisions of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159) were effective June 1, 2008. SFAS No. 159 gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The Colleges did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

SFAS 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Colleges for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

- Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of May 31, 2009, by caption on the statement of financial position by the SFAS 157 valuation hierarchy defined above:

Short-term investments	**Assets at Fair Value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income and government securities	$ 5,133,483	$ 5,349,354	$ -	$ 10,482,837
Common and preferred stocks	90,925			90,925
	$ 5,224,408	$ 5,349,354	$ -	$ 10,573,762

Long-term investments	**Assets at Fair Value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 1,143,981	$ 22,905,785		$ 24,049,766
Fixed income and government securities	3,743,090	145,874		3,888,964
Common and preferred stocks	17,514,241	11,250		17,525,491
Mutual funds	3,122,047	8,025,199	4,005,164	15,152,410
Real estate			6,394,057	6,394,057
Private equity			8,143,026	8,143,026
Hedge			59,329,888	59,329,888
Other		1,534,408	5,414,270	6,948,678
	$ 25,523,359	$ 32,622,516	$ 83,286,405	$ 141,432,280

Contributions receivable - perpetual trusts	**Assets at Fair Value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Perpetual interests held by others			$ 366,151	$ 366,151
	$ -	$ -	$ 366,151	$ 366,151

Deposits with trustee of debt obligations	**Assets at Fair Value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income investments	$ 7,626,158			$ 7,626,158
	$ 7,626,158	$ -	$ -	$ 7,626,158

Interest rate swap agreement	**Liabilities at Fair Value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap agreement		$ (5,439,670)	-	$ (5,439,670)
	$ -	$ (5,439,670)	$ -	$ (5,439,670)

The following table is a rollforward of the statement of financial position amounts for financial instruments classified by the Colleges within Level 3 of the fair value hierarchy previously defined:

	Perpetual Interest Held by Others	Long-term Investments
Beginning balance	$ 447,947	$ 108,748,624
Total gains or losses (realized and unrealized) including non-operating losses	(81,796)	(24,280,580)
Purchases, sales, gifts, issuances and settlements	-	(1,181,639)
Transfers in (out) of level 3		
Ending balance	$ 366,151	$ 83,286,405

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying Statement of Activities.

Following is a description of the Colleges' valuation methodologies for assets measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that the Colleges have the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Colleges do not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3, is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The interest rate swap is valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs.

Investments included in Level 3 primarily consists of the Colleges’ ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds) The value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. 4.8% of investments held by the partnerships consist of marketable securities and 95.2% are securities that do not have readily determinable fair values. The fair values (NAV) of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Colleges have performed due diligence around these investments to ensure NAV is an appropriate measure of fair value as of May 31.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Colleges believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

6. Land, Buildings and Equipment

The components of land, buildings and equipment, as of May 31, 2009 and 2008 were as follows:

	2009	2008
Grounds	$ 3,306,254	$ 3,306,254
Site improvements	10,508,321	10,028,591
Buildings	142,412,334	120,596,160
Equipment	39,570,807	26,258,029
Library books	15,800,916	15,168,492
Construction in progress	1,277,812	24,068,091
	212,876,444	199,425,617
Accumulated depreciation	(74,273,017)	(67,778,741)
	$ 138,603,427	$ 131,646,876

Depreciation expense amounted to $6,532,323 and $5,337,971 in 2009 and 2008, respectively.

7. Borrowings

Borrowings consist of the following at May 31:

	Maturity Date	Interest Rate	Original Issue	2009	2008
City of Geneva Industrial Development Agency Revenue Bonds:					
Series 2001 (a)	2031	4.0 - 5.2%	10,120,000	8,810,000	9,020,000
Series 2003A (a)	2033	3.0 - 5.0%	20,000,000	19,200,000	19,600,000
Series 2003B (a)	2023	4.8%	2,115,000	2,095,000	2,095,000
Series 2007 (b)	2037	Variable	31,250,000	30,700,000	31,250,000
Net bond premium				569,852	593,127
				$ 61,374,852	$ 62,558,127
Manufacturers and Traders Trust Company					
Term Note (c)	2023	6.98%	3,420,000	2,820,000	2,940,000
				$ 64,194,852	$ 65,498,127

(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, 2009 ranged from 0.27% to 8.50%. The bonds mature in 2037.

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, 2012.

In connection with the issuance of the letter of credit, there was a reoffering of the bonds to include the amendment. The reoffering was accounted for as an early extinguishment of debt and accordingly the Colleges were required to write off previously capitalized deferred financing costs of approximately $1,275,000.

(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:

2010	$ 1,317,000
2011	1,372,000
2012	1,427,000
2013	1,242,000
2014	1,347,500
Thereafter	56,919,500
	63,625,000
Net bond premium	569,852
	$ 64,194,852

As noted in letter (b) above the colleges have a letter of credit agreement with a financial institution. In the event that the Series 2007 Bond covered by this agreement is not remarketable and the agreements were not otherwise reviewed, the principle amounts due in the principal debt service payments table would be:

2010	$ 1,317,000
2011	1,372,000
2012	1,427,000
2013	10,275,333
2014	10,355,833
Thereafter	38,877,834
	$ 63,625,000

The bond agreements related to the 2001, 2003 and 2007 series include certain financial and non financial covenants, the most restrictive being a liquidity ratio. As of May, 31, 2009, the Colleges were not in compliance with the required liquidity ratio. To remedy this, the Colleges obtained waivers of compliance with the liquidity test and any event that results from such non compliance until the next required compliance period of May 31, 2011.

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, 2009, the notional amount of the swap was $30,700,000. 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 $879,926 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, 2009, the Colleges recognized a decrease in net assets of $2,880,354, and a related increase in liabilities on the statement of financial position.

Line of Credit

The Colleges maintain a line of credit for $1,000,000 which was unused during 2009 and 2008. The line of credit is renewed on an annual basis.

8. 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 $195,000 and $208,000 at May 31, 2009 and 2008, respectively. The maximum potential amount of undiscounted future payments that the Colleges could be required to make under this program is approximately $2,000,000.

9. Net Tuition and Fees

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

	2009	2008
Tuition and fees	$ 79,558,405	$ 72,943,181
Institutionally funded scholarships	(30,945,746)	(27,693,130)
Government funded grants	(341,743)	(359,485)
Net tuition and fees	$ 48,270,916	$ 44,890,566

10. 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 $2,732,000 and $2,549,000 for 2009 and 2008, 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).

11. Fair Value of Financial Instruments

Cash and Cash Equivalents, Accounts Receivable, and Accounts Payable
The carrying amount of these items approximates fair value.

Contributions Receivable
Contributions receivable are recorded at their net present value.

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.

Investments
Investments with readily determinable fair values are based on quoted market prices for these or similar investments. All others are carried at estimated fair value provided by the investment managers.

Bonds Payable
The following represents estimated fair value of the Colleges' bonds payable based on current rates offered for similar issuances:

	May 31, 2009	
	Carrying Value	Fair Value
Series 2001	$ 8,810,000	$ 8,883,701
Series 2003A	19,200,000	19,620,153
Series 2003B	2,095,000	2,183,535
Series 2007	30,700,000	30,700,000
	$ 60,805,000	$ 61,387,389

12. 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 $104,000 and $103,000 at May 31, 2009 and 2008, respectively.

13. Subsequent Event

The Colleges have performed an evaluation of subsequent events through February 9, 2009, the date on which the financial statements were issued.