KPMG

HAMILTON COLLEGE

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

HAMILTON COLLEGE

June 30, 2007

Index

KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

Board of Trustees
Hamilton College:

We have audited the accompanying statement of financial position of Hamilton College (College) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The College's financial statements as of and for the year ended June 30, 2006, were audited by other auditors whose report thereon, dated October 12, 2006, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of Hamilton College as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 10, 2007

HAMILTON COLLEGE

Statement of Financial Position

June 30, 2007

(Dollars in thousands)

Assets		
Cash and cash equivalents	$	33,635
Student accounts receivable, net		204
Other accounts receivable, net		672
Inventories		503
Loans to students		3,387
Contributions receivable, net		18,437
Beneficial interest trusts		5,080
Deposits with trustees of debt obligations		35,766
Collateral received for securities lending		170,270
Investments		783,925
Property, plant and equipment, net		196,429
Deferred financing costs		3,013
Fair value of interest rate swap		279
Other assets		1,331
Total assets	$	1,252,931
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$	8,277
Deposits and advances		5,090
Long-term debt		143,148
Asset retirement obligation		1,572
Liability under securities lending transactions		170,270
Annuity and life income obligations		29,286
Funds held in trust for others		3,324
Accumulated postretirement benefit obligation		2,382
Refundable government student loan funds		1,581
Total liabilities		364,930
Net assets:		
Unrestricted net assets:		
Net investment in plant		76,254
Board designated for endowment		108,979
Appreciation on endowment funds		376,628
Other		5,423
Total unrestricted net assets		567,284
Temporarily restricted net assets:		
Appreciation on endowment funds		88,671
Planned giving arrangements		20,841
Other		42,362
Total temporarily restricted net assets		151,874
Permanently restricted net assets:		
Endowment principal		129,204
Planned giving arrangements		32,072
Other		7,567
Total permanently restricted net assets		168,843
Total net assets		888,001
Total liabilities and net assets	$	1,252,931

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statement of Activities

Year ended June 30, 2007

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 67,040	—	—	67,040
Scholarship aid	(21,114)	—	—	(21,114)
Net tuition and fees	45,926	—	—	45,926
Auxiliary enterprises	16,812	—	—	16,812
Investment return designated for operations	5,698	18,060	—	23,758
Private gifts and grants	5,733	1,811	—	7,544
Government grants and contracts	483	1,749	—	2,232
Other income	2,334	—	—	2,334
Net assets released from restrictions	20,420	(20,420)	—	—
Total operating revenues	97,406	1,200	—	98,606
Operating expenses:				
Instruction	40,840	—	—	40,840
Research	1,175	—	—	1,175
Public service	254	—	—	254
Academic support	12,209	—	—	12,209
Student services	10,637	—	—	10,637
Institutional support	15,089	—	—	15,089
Auxiliary enterprises	17,113	—	—	17,113
Total operating expenses	97,317	—	—	97,317
Increase in net assets from operating activities	89	1,200	—	1,289
Nonoperating activities:				
Private gifts	3,777	17,030	5,016	25,823
Investment return, net of amounts designated for operations	86,337	22,530	7,821	116,688
Loss on extinguishment of debt	(1,002)	—	—	(1,002)
Change in value of split interest agreements	—	(942)	(2,085)	(3,027)
Net assets released from restriction and changed restrictions	5,501	(6,200)	699	—
Change in fair value of interest rate swap	(1,016)	—	—	(1,016)
Other	755	—	37	792
Increase in net assets from nonoperating activities	94,352	32,418	11,488	138,258
Increase in net assets before cumulative effect of accounting change	94,441	33,618	11,488	139,547
Cumulative effect of change in accounting principle	602	—	—	602
Increase in net assets	95,043	33,618	11,488	140,149
Net assets, beginning of year	472,241	118,256	157,355	747,852
Net assets, end of year	$ 567,284	151,874	168,843	888,001

See accompanying notes to financial statements.

HAMILTON COLLEGE

Statement of Cash Flows

Year ended June 30, 2007

(Dollars in thousands)

Net cash flows from operating activities:		
Change in net assets	$	140,149
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions to endowment and facilities		(26,824)
Depreciation and amortization		10,466
Cumulative effect of change in accounting principle		(602)
Asset retirement obligation		70
Realized and unrealized gains on investments		(131,640)
Loss on disposal of plant and equipment		421
Loss on extinguishment of debt		1,002
Increase in contributions receivable		(3,583)
Increase in beneficial interest trusts		(3,737)
Change in fair value of interest rate swap		1,016
Increase in annuity and life income obligations		5,304
Net change in operating assets and liabilities		1,640
Cash flows used in operating activities		(6,318)
Net cash from investing activities:		
Student loans, net		(78)
Purchase of property, plant and equipment, net		(32,981)
Purchases of investments		(368,315)
Proceeds from sales and maturities of investments		378,711
Increase in deposits held by trustees of debt obligations		(15,410)
Cash flows used in investing activities		(38,073)
Net cash from financing activities:		
Contributions to endowment and facilities		26,824
Proceeds from debt		59,277
Payments on debt		(30,310)
Payments to beneficiaries of split interest agreements		(3,813)
Other financing activities		(967)
Cash flows provided by financing activities		51,011
Net increase in cash and cash equivalents		6,620
Cash and cash equivalents:		
Beginning of year		27,015
End of year	$	33,635
Supplemental disclosure of noncash investing activities:		
Increase in construction related payables	$	723
Supplemental disclosure:		
Cash paid for interest, including capitalized interest		4,043
Gifts in kind		100

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of Hamilton College (the College), which is a coeducational, independent, liberal arts college located in Clinton, New York, are prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the College and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors permit the College to use all or part of the income earned on these assets for general or specific purposes.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Contributions restricted for the acquisition of land, buildings and equipment and specific programs are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the assets.

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

(b) Cash and Cash Equivalents

The College considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Included in cash and cash equivalents at June 30, 2007, are $31,705 of cash equivalents primarily representing interest bearing money market and other short-term investment accounts.

(c) Investments

Investments are stated at fair value. Net appreciation or depreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation on those investments, is recognized in the statement of activities. Realized gains and losses on the sale of investments are generally determined on the specific identification method on the trade date.

The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. Limited partnership interests, private equity, real estate and other nonmarketable investments for which a readily determinable fair value does not exist, are carried at estimated fair values provided by the investment managers. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flows analysis, recent sales prices of investments, and other pertinent information. Because of the inherent uncertainty of valuation of these investments, the investment manager's estimate may differ from the values that would have been used had a ready market existed. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

Investments securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

(d) Gifts and Private Grants

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When stipulated time restriction ends or donor purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets released from restrictions in the same year the underlying gift is received, or endowment income is appropriated under the spending policy, are reported as operating revenues within the statement of activities.

(e) Endowment Income

The Board of Trustees designates only a portion of the College's cumulative investment return for support of current operations; the remainder, classified as nonoperating, is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirements are used to support current operations.

(f) Inventories

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

(g) Property, Plant and Equipment

Property, plant and equipment are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts.

Depreciation is recorded on a straight-line basis over the estimated useful lives under the following guidelines: artwork (50 years), buildings (40 years), land improvements, HVAC, roofing and electrical (15 years), landscaping, carpeting and sprinkler systems (10 years), office furniture (7 years) vehicles, computer hardware and related equipment (5 years), computer software (3 years).

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(h) Deferred Financing Costs

Deferred financing costs represent bond issuance costs whose amortization is recorded on a straight-line basis over the period to bond maturity.

(i) Derivative Instruments and Hedging Activities

The College accounts for derivative investments in accordance with Statements of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. The College currently only has an interest rate swap that is being adjusted to fair value, based upon information provided by a financial institution, through net assets.

(j) Annuity and Life Income Gifts

The College accepts certain gifts on the condition periodic annuity or life income distributions are made to designated beneficiaries. Assets associated with these gifts are recorded at their fair value. The College recognizes contribution revenue in an amount equal to the difference between the fair value of the contributed asset and the net present value of the payment obligations, and classifies contribution revenue as an increase in temporarily restricted or permanently restricted net assets, based on the donor stipulations. Liabilities associated with these gifts (the annuity or life income obligation) represent the present value of payments expected to be made to beneficiaries. Changes in annuity and life income obligations resulting from changes in actuarial assumptions and the accretion of the discount are recorded as increases or decreases in temporarily or permanently restricted net assets based on the donor stipulations.

(k) Beneficial Interest Trusts

The College is the beneficiary of certain perpetual trusts held and administered by others. The trusts are recorded at their respective fair market values.

(Continued)

(l) Fair Value of Financial Instruments

The fair value of the College's financial instruments approximates the carrying amount reported in the statement of financial position for cash and cash equivalents, student accounts receivable, other accounts receivable, contributions receivable, collateral received for securities lending, investments, beneficial interest trusts, deposits with trustees of debt obligations, accounts payable, liability under securities lending transactions, and funds held in trust for others. It is not practical to determine the fair value of loans to students because it includes federally sponsored student loans with U.S. government mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer and disposition. The fair value of long-term debt is discussed in note 7.

(m) Revenue Recognition

Tuition and fees and certain auxiliary enterprise revenues are earned over the academic year as services are provided. Funds received in advance of services provided are included in deposits and advances.

(n) Taxation

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income tax on related income.

(o) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is possible that a liability has been incurred and the amount can be reasonably estimated. Legal costs associated with loss contingencies are expensed as incurred.

The College applies Financial Accounting Standards Board Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143*, in applying the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*, as they relate to conditional asset retirement obligations. The College recognizes a liability for the fair value of conditional asset retirement obligations if their fair values can be reasonably estimated. This liability is initially recorded as an increase to the associated asset and depreciated over the remaining useful life of the asset.

(p) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, valuation allowances for receivables, the fair value of certain nonmarketed investments, and the accrual for postretirement benefits. Actual results could differ from those estimates.

(Dollars in thousands)

(2) Investments

Investments consist of the following at June 30, 2007:

	Fair value	Cost
Cash and cash equivalents	$ 40,687	40,687
Fixed income	14,197	14,338
Equity securities	426,590	344,982
Limited partnership investments and other	302,451	228,173
	743,238	587,493
	$ 783,925	628,180

Certain investments are pooled on a fair value basis, with individual funds subscribing to or disposing of units based on the approximate fair value. Effective January 1, 2007, the College's investment pools were combined into one pool. As of June 30, 2007, the total pool had a cost basis of $575,000, a fair value of $717,517 and a fair value per unit of $30.39.

For the year ended June 30, 2007, the College operated under a spending policy with respect to endowment income equal to 5% of a twelve quarter moving average of the fair value of endowment assets. The spending policy is subject to a ceiling and floor of 108% and 104%, respectively, of the prior year spending amount. For fiscal year 2007, the Board approved special appropriations of endowment investment return amounting to $2,493 to fund debt service obligations and the capital campaign.

During 2007, the College received $1,859 for annuity and life income gifts.

The following schedule summarizes total investment return and its classification in the statement of activities for the year ended June 30, 2007:

Endowment income	$ 8,806
Realized and unrealized gains on investments	131,640
Total return on investments	140,446
Investment return designated for current operations (spending policy distributions)	(23,758)
Investment return net of amounts designated for current operations	$ 116,688

Endowment income is presented net of investment management and custodial fees of $3,937 for the year ended June 30, 2007.

The College participates in certain limited partnership arrangements as part of its endowment portfolio, the terms of which require the College to periodically advance additional funding. Outstanding unfunded capital commitments as of June 30, 2007, on these investments approximated $192,765. Such commitments generally have fixed expiration dates or other termination clauses. The College maintains sufficient liquidity in its investment portfolio to cover such calls.

The College participates in a securities lending program. Collateral required under the program is a minimum of 102% of the fair value of securities lent. As of June 30, 2007, the College had loaned certain securities, with a fair value of $163,812 to several financial institutions that have provided collateral of $170,270 for the loaned securities. The College receives lending fees and continues to earn interest and dividends from the securities on loan.

(3) Receivables

The College extends credit, primarily to students, in the form of notes and accounts receivable for educational expenses. Notes receivables for student loans are expected to be collected within 15 years and interest rates average 8%. Notes receivable are recorded at their current unpaid principal balance and associated interest income is accrued based on the principal amount outstanding and applicable interest rates.

Allowances for doubtful accounts are recorded and represent the amounts that, in the opinion of management of the College, are necessary to account for probable losses related to current receivables. Allowances are determined based upon numerous considerations, including economic conditions, the specific composition of the receivable balances, as well as trends of delinquencies and write-offs. On a periodic basis, these factors are considered and the allowances for doubtful accounts are adjusted accordingly with a corresponding adjustment to the provision for allowance for doubtful notes and accounts receivable.

Student accounts receivable are net of an allowance of $158 at June 30, 2007. Other accounts receivable are net of an allowance of $45 at June 30, 2007. Loans to students are net of an allowance of $550 at June 30, 2007.

(Dollars in thousands)

(4) Contributions Receivable

Contributions receivable are recorded at their estimated net present value assuming a discount rate in effect at the time the pledge was received, ranging from 4% to 7% at June 30, 2007. Contributions to be collected at June 30, 2007 are as follows:

Less than one year	$	6,751
One to five years		14,756
		21,507
Less:		
Present value discount		(2,070)
Reserve for uncollectible receivables		(1,000)
	$	18,437

At June 30, 2007, the College also had received conditional promises to give of $850, which are not recognized as assets until the removal or lapse of the condition.

(5) Deposits with Trustees of Debt Obligations

The following is a summary of deposits with trustees of debt obligations at June 30, 2007:

Debt service fund	$	4,187
Construction fund		31,579
	$	35,766

The deposits with trustees, which are recorded at fair value, are invested in cash, money market and short-term government securities according to the requirements established by the associated bond agreements. The construction fund represents unexpended bond proceeds and yield-restricted income on those proceeds.

(Continued)

(Dollars in thousands)

(6) Property, Plant, and Equipment

Property, plant, and equipment consists of the following at June 30, 2007:

Land and improvements	$	11,106
Buildings		221,847
Equipment		40,615
		273,568
Less accumulated depreciation		(90,887)
		182,681
Projects in process		13,748
	$	196,429

Depreciation expense of $10,347 in 2007 has been allocated to the functional operating expense categories within the statement of activities based primarily on specific identification of buildings utilized within each function. The College has estimated it will incur $32,000 of additional costs to complete the construction projects in process, which will be primarily financed with construction funds included in deposits with trustees and donations.

(7) Long-Term Debt

Long-term debt consists of the following at June 30, 2007:

	Maturity date	Interest rate	Original issue	Outstanding at June 30, 2007
Oneida County Industrial Development Agency Civic Facility (a):				
Revenue Bonds Series 2002	09/15/32	4.1%	$ 60,000	54,725
Revenue Bonds Series 2005	07/01/15	3.0% – 4.0%	8,775	8,030
Revenue Bonds Series 2007A	07/01/37	3.8% – 4.65%	36,107	36,107
Revenue Bonds Series 2007B	07/01/21	4.0% – 5.0%	23,170	23,170
Dormitory Authority of the State of New York Revenue Bonds, Series 1999 (b)	07/01/28	3.0% – 5.1%	52,160	18,920
Banco Popular Espanol (c)	02/01/22	variable	1,883	2,159
Other note payable	12/01/08	5.0%	150	37
				$ 143,148

(Dollars in thousands)

Principal payments on long-term debt are as follows:

2008	$	3,491
2009		3,598
2010		3,711
2011		4,527
2012		4,658
Thereafter		123,163
	$	143,148

(a) Civic Facility Revenue Bonds are collateralized by the financed property and equipment.

During fiscal 2007, the College issued $59,277 of Civic Facility Revenue Bonds to finance the renovation of the Kirner Johnson Building and other College facilities, and refund existing indebtedness. Approximately $23,710 of proceeds were used to extinguish a portion of the Series 1999 Dormitory Authority Revenue Bonds, resulting in a loss of $1,002 which is reflected within the College's statement of activities. The statement of activities does not reflect the future interest cost savings to be realized by the College as a result of the extinguishment.

(b) Dormitory Authority Revenue Bonds are general obligations of the College and are supported by pledges of tuition or net revenues from operation of the financed properties.

(c) The College maintains a Euro 1,900 note with Banco Popular Espanol. The note is collateralized by a standby letter of credit, which in turn is collateralized by a pledge of cash equivalents to the outstanding balance of the note. The balance of the note has been converted using the applicable exchange rate as of June 30, 2007.

(d) The College maintains an interest rate swap agreement related to the Series 2002 bonds. The agreement entered into in September 2002 created a synthetic fixed rate for the College. The agreement had an original notional amount of $60,000, which decreases consistent with scheduled principle payments on the series 2002 bonds. The swap is calculated on a weekly basis using the weekly Bond Market Association (BMA) AAA municipal rate and the fixed interest paid to the counterparty by the College is 4.1%. The fair value of the interest rate swap has been recorded on the statement of financial position and is an asset of $279 at June 30, 2007.

Based on rates currently available to the College for debt with similar terms and remaining maturities, the estimated fair value of long-term debt at June 30, 2007 is approximately $140,709.

Interest expense was $3,285, net of capitalized interest of $758, for the year ended June 30, 2007.

(Dollars in thousands)

(8) Asset Retirement Obligation

The College has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs are estimated using a per square foot estimate for each impacted location. As of June 30, 2007, the College has recorded a liability of $1,572 representing the fair value of these conditional asset retirement obligations. Also, at June 30, 2007, $18 of these costs, net of accumulated depreciation, is included in property, plant and equipment.

(9) Postretirement Health Care Benefits

The College provides health insurance benefits for eligible employees upon retirement. SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, was issued in September 2006. This statement requires an employer to recognize the overfunded or underfunded status of a defined benefit post retirement plan as an asset or liability and to recognize changes in that funded status in the year they occur. Upon adoption of FASB 158 on June 30, 2007, the College recognized $602 as the cumulative effect of a change in accounting principle in the statement of activities. Information with respect to the Plan is as follows:

Change in benefit obligation:		
Benefit obligation at beginning of year	$	2,136
Service cost		108
Interest cost		134
Actuarial loss		47
Participant contributions		292
Benefits paid		(335)
Benefit obligation at end of year	$	2,382
Change in plan assets:		
Fair value of plan assets at end of year	$	—
Components of accrued benefit cost:		
Funded status	$	(2,382)
Weighted average assumptions at June 30, 2007:		
Discount rate		6.29%

(Dollars in thousands)

Amounts recorded in unrestricted net assets as of June 30, 2007, not yet amortized as components of net periodic benefit costs are as follows:

Unamortized prior service costs	$	189
Unamortized actuarial gains		413
Amount recognized as an increase in unrestricted net assets	$	602

The amortization of the above items expected to be recognized in net periodic costs for the year ended June 30, 2008 is $46.

For measurement purposes, the annual rates of increase per capita cost of covered medical and prescription drug benefits for fiscal year 2007 were assumed to be 7.5% and 11.0%, respectively. The rates were assumed to decrease gradually to 5.0% for fiscal year 2014 and remain at that level thereafter.

Components of net periodic benefit cost:		
Service cost	$	108
Interest cost		134
Amortization of unrecognized actuarial gain		(16)
Amortization of unrecognized prior service cost		(35)
Net periodic postretirement benefit cost	$	191

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. From a sensitivity perspective, a one percentage point change in the assumed health care cost trend rates would have the following effects:

		One percentage point	
		Increase	**Decrease**
Effect on total of service and interest cost components	$	34	(30)
Effect on postretirement benefit obligation		275	(244)

The following benefit payments, which reflect expected future service for each fiscal year, are expected to be paid:

2008	$	85
2009		95
2010		123
2011		143
2012		172
2013 – 2017		1,240

(Dollars in thousands)

(10) Postretirement Pension Benefits

The College participates in contributory retirement plans administered by the Teachers Insurance Annuity Association (TIAA), College Retirement Equities Fund (CREF) and Fidelity Services Corporation for eligible employees. Total pension expense charged to operations relating to these plans for the year ended June 30, 2007 amounted to $3,240.

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 are available for the following purposes:

Program and student support	$	97,227
Acquisition of buildings and equipment		17,516
Planned giving arrangements		20,841
Contributions receivable, net		16,290
	$	151,874

(12) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2007, consist primarily of endowment corpus, with donor stipulations that they be invested in perpetuity to provide a permanent source of income. Such income is primarily restricted for instruction and student scholarship expenses.

(13) Expenses

Included in institutional support are $5,861 of fundraising expenses for the year ended June 30, 2007.

Operating expenses for the year ended June 30, 2007, were incurred as follows:

Salaries and wages	$	39,702
Benefits		12,003
Total compensation		51,705
Services and contracting		5,002
Supplies and minor equipment		8,657
Auxiliaries, costs of sales		4,677
Utilities		5,444
Travel and entertainment		4,097
Insurance and taxes		1,221
Depreciation and amortization		10,466
Interest		3,285
Other		2,763
Total expenses	$	97,317

(Dollars in thousands)

(14) Adjustments to Beginning Net Assets

In conjunction with preparing the College's 2007 financial statements, instances of misapplication of certain generally accepted accounting principles in previously issued financial statements were identified.

The College had not previously recognized in its financial statements assets representing contributions receivable and certain beneficial interest trusts held by third parties. Also, the College did not recognize the correct fair value of investments in certain limited partnerships. Management has concluded that these immaterial items warrant correction in the College's beginning net assets on the accompanying statement of activities as follows:

		Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Contributions receivable	$	—	11,468	3,386	14,854
Beneficial interest trusts		—	368	975	1,343
Fair value of investments		1,508	302	63	1,873
Recorded increase in net assets		1,508	12,138	4,424	18,070
Net assets as of June 30, 2006, as previously reported		470,733	106,118	152,931	729,782
Net assets as of June 30, 2006 reported in statement of activities for the year ended June 30, 2007	$	472,241	118,256	157,355	747,852