Hobart and William Smith Colleges

Financial Statements
May 31, 2012 and 2011

Hobart and William Smith Colleges
IndexMay 31, 2012 and 2011

Report of Independent Auditors

To the Board of Trustees
Hobart and William Smith Colleges

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 Hobart and William Smith Colleges (the "Colleges") at May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Colleges' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Colleges changed the manner in which they classify accumulated total investment returns within net assets as a result of the adoption of ASC 958, Not-for-Profit Entities (formerly FASB Staff Position No. 117-1).

PricewaterhouseCoopers LLP

January 18, 2013

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Hobart and William Smith Colleges
Statements of Financial Position
May 31, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 23,753,353	$ 28,326,475
Short-term investments	6,056,002	5,941,244
Deposits with trustee of debt obligations	95	549,599
Accounts receivable, net of allowance of $623,000 and $528,000 in 2012 and 2011, respectively	2,002,275	1,972,983
Notes receivable, net of allowance of $128,000 in 2012 and 2011	2,511,991	2,592,123
Inventories	554,188	523,030
Contributions receivable, net	5,551,234	8,814,266
Long-term investments	164,296,427	182,870,130
Land, buildings and equipment, net	138,619,343	138,482,264
Other assets	2,103,087	1,735,592
Total assets	$ 345,447,995	$ 371,807,706
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 7,395,533	$ 6,968,045
Deferred revenue and deposits	3,866,231	3,276,833
Deferred giving liabilities	1,534,315	1,592,680
Refundable advances from government loan programs	1,991,012	2,017,408
Asset retirement obligations	2,253,001	2,164,725
Fair value of swap agreement	9,173,152	5,692,817
Borrowings	59,979,028	61,454,303
Total liabilities	86,192,272	83,166,811
Net assets		
Unrestricted	95,484,821	108,302,186
Temporarily restricted	45,753,114	61,984,642
Permanently restricted	118,017,788	118,354,067
Total net assets	259,255,723	288,640,895
Total liabilities and net assets	$ 345,447,995	$ 371,807,706

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

Hobart and William Smith Colleges
Statements of Activities
Year Ended May 31, 2012
(with comparative totals for 2011)

	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Total
Operating revenues					
Tuition and fees, net of scholarships	$ 54,028,348	$ -	$ -	$ 54,028,348	$ 51,472,795
Sales and services of auxiliaries	22,197,907	-	-	22,197,907	21,310,902
Government grants and contracts	2,485,219	-	-	2,485,219	2,692,542
Private gifts and grants	4,411,906	41,446	-	4,453,352	4,134,431
Endowment spending	7,069,913	766,270	-	7,836,183	8,272,249
Other investment income	74,167	332	-	74,499	349,739
Other	490,702	-	-	490,702	465,013
Net assets released from restrictions	1,117,735	(1,117,735)	-	-	-
Total operating revenues	91,875,897	(309,687)	-	91,566,210	88,697,671
Operating expenses					
Instruction	31,256,677	-	-	31,256,677	28,775,650
Academic support	9,147,223	-	-	9,147,223	9,284,708
Student services	20,623,116	-	-	20,623,116	20,310,079
Institutional support	17,070,031	-	-	17,070,031	15,040,644
Auxiliaries operations	16,091,203	-	-	16,091,203	15,702,618
Total operating expenses	94,188,250	-	-	94,188,250	89,113,699
Change in net assets from operating activities	(2,312,353)	(309,687)	-	(2,622,040)	(416,028)
Nonoperating revenues (expenses)					
Investment return	(8,852,212)	(14,449,951)	128,956	(23,173,207)	12,058,620
Capital gifts	733,511	1,781,398	1,842,992	4,357,901	8,102,810
Capital campaign expense	(841,713)	-	-	(841,713)	(823,527)
Other (expense) revenue, net	(707,151)	(449,511)	(2,417,512)	(3,574,174)	39,454
Change in value of deferred giving arrangements	-	(72,987)	21,383	(51,604)	109,184
Change in fair value of swap agreement	(3,480,335)	-	-	(3,480,335)	(135,700)
Net assets with changed restrictions	2,522,678	(2,610,580)	87,902	-	-
Net assets released from restrictions	120,210	(120,210)		-	-
Change in net assets from nonoperating activities	(10,505,012)	(15,921,841)	(336,279)	(26,763,132)	19,350,841
Increase (decrease) in net assets	(12,817,365)	(16,231,528)	(336,279)	(29,385,172)	18,934,813
Net assets					
Beginning of year	108,302,186	61,984,642	118,354,067	288,640,895	269,706,082
End of year	$ 95,484,821	$ 45,753,114	$ 118,017,788	$ 259,255,723	$ 288,640,895

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

Hobart and William Smith Colleges
Statement of Activities
Year Ended May 31, 2011

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees, net of scholarships	$ 51,472,795	$ -	$ -	$ 51,472,795
Sales and services of auxiliaries	21,310,902	-	-	21,310,902
Government grants and contracts	2,692,542	-	-	2,692,542
Private gifts and grants	3,978,994	155,437	-	4,134,431
Endowment spending	7,536,600	735,649	-	8,272,249
Other investment income	348,286	1,453	-	349,739
Other	465,013	-	-	465,013
Net assets released from restrictions	883,790	(883,790)	-	-
Total operating revenues	88,688,922	8,749	-	88,697,671
Operating expenses				
Instruction	28,775,650	-	-	28,775,650
Academic support	9,284,708	-	-	9,284,708
Student services	20,310,079	-	-	20,310,079
Institutional support	15,040,644	-	-	15,040,644
Auxiliaries operations	15,702,618	-	-	15,702,618
Total operating expenses	89,113,699	-	-	89,113,699
Change in net assets from operating activities	(424,777)	8,749	-	(416,028)
Nonoperating revenues (expenses)				
Investment return	480,546	10,986,758	591,316	12,058,620
Capital gifts	116,087	3,984,274	4,002,449	8,102,810
Capital campaign expense	(823,527)	-	-	(823,527)
Other (expense) revenue, net	39,454	-	-	39,454
Change in value of deferred giving arrangements	-	(266,322)	375,506	- 109,184
Change in fair value of swap agreement	(135,700)	-	-	(135,700)
Net assets with changed restrictions	3,220,856		(3,220,856)	-
Net assets released from restrictions	3,395,649	(3,395,649)	-	-
Change in net assets from nonoperating activities	6,293,365	11,309,061	1,748,415	19,350,841
Increase in net assets before net asset reclassification based on change in law	5,868,588	11,317,810	1,748,415	18,934,813
Net asset reclassification based on change in law	(28,572,687)	28,572,687	-	-
Increase (decrease) in net assets	(22,704,099)	39,890,497	1,748,415	18,934,813
Net assets				
Beginning of year	131,006,285	22,094,145	116,605,652	269,706,082
End of year	$ 108,302,186	$ 61,984,642	$ 118,354,067	$ 288,640,895

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

Hobart and William Smith Colleges
Statements of Cash Flows
Years Ended May 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (29,385,172)	$ 18,934,813
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, amortization and accretion	7,767,790	7,654,411
Provision for uncollectible contributions receivable	1,230,794	28,712
Loss on disposal of land, buildings and equipment	791,443	-
Change in value of deferred giving arrangements	(58,365)	(256,457)
Change in fair value of swap agreement	3,480,335	135,700
Receipt of contributed securities	(838,034)	(1,128,088)
Contributions restricted for long-term investment	(4,767,224)	(8,678,397)
Noncash contributions for long-term purposes	(325,000)	-
Interest and dividends restricted for long-term investment	(199,590)	(270,819)
Net realized and unrealized (gains) losses on investments	17,156,516	(18,415,851)
Change in assets and liabilities		
Accounts receivable	(29,292)	(109,077)
Inventories	(31,158)	(41,563)
Contributions receivable	2,032,238	2,656,490
Other assets	(415,652)	(55,966)
Accounts payable and accrued liabilities	(63,010)	787,473
Asset retirement obligations	(11,482)	(39,454)
Deferred revenues and deposits	589,398	1,380,573
Net cash (used in) provided by operating activities	(3,075,465)	2,582,500
Cash flows from investing activities		
Acquisition of land, buildings and equipment, net	(7,756,174)	(7,631,489)
Decrease in deposits with trustee of debt obligation	549,504	1,463,302
Notes issued	(208,500)	(308,313)
Proceeds from note collections	288,632	162,398
Proceeds from sale and maturities of investments	102,699,137	178,599,428
Purchases of investments	(100,558,674)	(176,890,342)
Net cash used in investing activities	(4,986,075)	(4,605,016)
Cash flows from financing activities		
Proceeds from contributions for		
Investment in endowment	2,589,702	3,969,346
Investment in plant	2,094,105	4,647,067
Investment subject to deferred giving arrangements	83,417	61,984
Interest and dividends restricted for reinvestment	199,590	270,819
Decrease in refundable advances from government loan programs	(26,396)	(50,895)
Payment of long-term debt	(1,452,000)	(1,377,000)
Net cash provided by financing activities	3,488,418	7,521,321
Net (decrease) increase in cash and cash equivalents	(4,573,122)	5,498,805
Cash and cash equivalents		
Beginning of year	28,326,475	22,827,670
End of year	$ 23,753,353	$ 28,326,475
Supplemental data		
Interest paid	$ 1,684,017	$ 1,762,342
Gift in kind	325,000	-
Noncash activities		
Construction related payables	$ 490,498	$ (1,284,147)
Stock gifts and contributions	838,034	1,128,088

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

1. Summary of Significant Accounting Policies

Basis of Presentation
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, realized and unrealized gains on permanently and temporarily restricted assets in accordance with New York State law and unconditional pledges receivable that are not permanently restricted.

- *Permanently restricted net assets* are subject to donor stipulations requiring that they be maintained permanently or until prudently appropriated by the Colleges' Board of Trustees in accordance with New York State law. 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 is 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 $3,771,000 and $3,616,000 in 2012 and 2011, respectively. Approximately $842,000 and $824,000 for 2012 and 2011, 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.

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 $2,023,000 and $1,909,000 for 2012 and 2011, respectively and performance fees of approximately, $60,000 and $1,576,000, for 2012 and 2011, 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 $3,676,000 and $4,005,000 are included in long-term investments at their fair value as of May 31, 2012 and 2011, 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 market 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. The carrying amount of cash and cash equivalents approximates fair value.

Accounts Receivable
The carrying amount of accounts receivable approximates fair value.

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 was $48,157 in 2012 and 2011.

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.

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.

Accounts Payable
The carrying amount of accounts payable approximates fair value.

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 the Accounting for Asset Retirement Obligations standard. 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.

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

	2012	2011
Change in asset retirement obligations		
Asset retirement obligation at beginning of year	$ 2,164,725	$ 2,107,021
Asbestos liabilities abated	(11,482)	(39,454)
Accretion expense	99,758	97,158
Asset retirement obligation at end of year	$ 2,253,001	$ 2,164,725

Deposits with Trustee of Debt Obligations
Deposits with trustee of debt obligations represent debt service and certain reserve funds required by the trustee.

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. Credit Loss Disclosures

The Colleges record an allowance for doubtful accounts (credit losses) for the following loans receivable:

	2012		2011	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Notes receivable	$ 2,640,392	$ 128,000	$ 2,720,524	$ 128,000
Other loans receivable	477,681	378,294	333,837	283,870
	$ 3,118,073	$ 506,294	$ 3,054,361	$ 411,870

Notes Receivable represent amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program can be assigned to the Federal Government in certain nonrepayment situations. In these situations the Federal portion of the loan is guaranteed.

Other Loans Receivable are mainly related to an institutional loan program provided to foreign students and other students with extenuating circumstances in need of additional financial assistance. Loans in this category are considered to be higher risk and as a result, 80 to 100% of the amount of the receivable is reserved.

Management regularly assesses the adequacy of the allowance for doubtful accounts by performing ongoing evaluations of the receivables portfolio, including such factors as the economic environment, risks associated with each receivables category, the financial condition of specific borrowers, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the receivables and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

Changes in the allowance for doubtful accounts for the year ended May 31, 2012 were as follows:

	Notes Receivable	Other Loans Receivable
Beginning balances at June 1, 2011	$ 128,000	$ 283,870
Provision for doubtful accounts	-	94,424
Ending balances at May 31, 2012	$ 128,000	$ 378,294

Considering the other factors already discussed herein, management considers the allowance for doubtful accounts to be prudent and reasonable. Furthermore, the Colleges' allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for doubtful accounts at May 31, 2012 is sufficient to cover any potential losses inherent in the receivable accounts as of that date.

3. Contributions Receivable

Unconditional contributions receivable at May 31, 2012 and 2011 are restricted by donors predominantly for scholarships and capital projects. They are expected to be realized in the following periods:

	2012	2011
Less than one year	$ 7,788,555	$ 7,415,994
One year to five years	6,097,838	6,632,776
	13,886,393	14,048,770
Less: Allowance for uncollectibility of approximately $8,786,000and $5,916,000 and present value discount of approximately $224,000 and $251,000	(9,009,684)	(6,166,980)
	4,876,709	7,881,790
Charitable remainder and perpetual trusts	674,525	932,476
	$ 5,551,234	$ 8,814,266

As of May 31, 2012 and 2011, the Colleges have received notification of bequest intentions totaling approximately $17,793,000 and $16,145,000, respectively.

4. Investments

Investments are summarized as follows:

	2012		2011	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash and cash equivalents	$ 10,810,702	$ 10,810,702	$ 12,608,392	$ 12,608,392
Fixed income and government securities	14,986,036	15,838,153	15,473,139	16,302,520
Common and preferred stocks	52,478,351	52,466,092	55,932,889	61,249,766
Real estate	9,012,614	6,827,504	8,468,978	6,479,662
Private equity	9,486,538	10,540,735	7,281,732	7,529,793
Hedge	57,519,594	72,006,583	58,675,797	82,775,259
Other	1,719,409	1,862,660	1,687,358	1,865,982
	$ 156,013,244	$ 170,352,429	$ 160,128,285	$ 188,811,374

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

	2012	**2011**
Dividends and interest income	$ 1,893,991	$ 2,264,757
Net realized and unrealized (losses) gains	(17,156,516)	18,415,851
Total return on investments	(15,262,525)	20,680,608
Investment return designated for current operations	7,910,682	8,621,988
Investment return (less than) amounts designated for current operations	$ (23,173,207)	$ 12,058,620

5. 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. Unless otherwise directed in the gift instrument or required by applicable law, both donor-restricted and board-designated endowment funds are pooled for efficient investment purposes. These pooled funds are invested in a broadly diversified portfolio designed to produce long-term returns that equal or exceed the Board-approved spending rates plus the impacts of inflation. The fair value of endowment investments (separately invested and pooled) was $161,238,813 and $182,833,093 as of May 31, 2012 and 2011, respectively.

The New York Prudent Management of Institutional Funds Act ("NYPMIFA") became effective on September 17, 2010 and governs the management and investment of funds held by not-for-profit corporations and other institutions. Absent donor stipulations to the contrary, the statutory guidelines contained in NYPMIFA relate to the prudent management, investment and expenditure of donor-restricted endowment funds without regard to the original value of the gifts. However, NYPMIFA contains specific factors that must be considered prior to making investment decisions or appropriating funds for expenditure. For accounting purposes, the Colleges applied the concepts included in NYPMIFA and disclosure requirements for not-for-profit organizations with donor-restricted endowment funds regarding classification of accumulated total return as temporarily restricted net assets as of June 1, 2011 for the year ended May 31, 2012. Accordingly, accumulated total return of $28,572,687 as of June 1, 2011 was reclassified to temporarily restricted net assets from unrestricted net assets, as a cumulative effect of change in accounting principle.

The Colleges' Board of Trustees has interpreted New York State's Not-for-Profit Corporation Law, including NYPMIFA, 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 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% in 2012 and 2011. 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.

The following table provides the net asset composition of the endowment as of May 31, 2012 and a rollforward of the net assets from June 1, 2011 to May 31, 2012.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ (5,796,413)	$ 24,611,568	$ 116,691,230	$ 135,506,385
Funds functioning as endowment	25,732,428	-	-	25,732,428
	$ 19,936,015	$ 24,611,568	$ 116,691,230	$ 161,238,813

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 23,997,148	$ 41,583,794	$ 117,252,151	$ 182,833,093
Investment return	(1,437,054)	(13,288,017)	191,677	(14,533,394)
Underwater	(5,466,203)	5,466,203	-	-
Capital gifts	502,687	-	1,336,318	1,839,005
Other changes	3,547,886	(2,522,678)	(2,088,916)	(1,063,708)
Endowment spending	(1,208,449)	(6,627,734)	-	(7,836,183)
Endowment net assets at end of year	$ 19,936,015	$ 24,611,568	$ 116,691,230	$ 161,238,813

The following table provides the net asset composition of the endowment as of May 31, 2011 and a rollforward of the net assets from June 1, 2010 to May 31, 2011.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ (330,210)	$ 41,583,794	$ 117,252,151	$ 158,505,735
Funds functioning as endowment	24,327,358	-	-	24,327,358
	$ 23,997,148	$ 41,583,794	$ 117,252,151	$ 182,833,093

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 47,816,529	$ 2,341,242	$ 115,706,964	$ 165,864,735
Net asset reclassification based on change in law	(28,572,687)	28,572,687		-
Investment return	2,673,539	17,421,585	281,987	20,377,111
Underwater	(330,210)	330,210	-	-
Capital gifts	1,761	-	3,969,241	3,971,002
Other changes	3,650,341	(51,806)	(2,706,041)	892,494
Endowment spending	(1,242,125)	(7,030,124)	-	(8,272,249)
Endowment net assets at end of year	$ 23,997,148	$ 41,583,794	$ 117,252,151	$ 182,833,093

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.

	2012	**2011**
Pooled investments		
Fair value	$ 156,682,117	$ 174,943,460
Cost	143,212,466	147,329,610
Fair value per unit	2.82	3.25
Spending rate per unit	0.15	0.17

As a result of market declines, the fair market value of certain donor-restricted endowments was less than the historical cost value of such funds by $5,796,413 and $330,210 at May 31, 2012 and May 31, 2011, respectively. To support spending from these endowment funds the Colleges utilized unrestricted accumulated gains of $3,413,819 and $0, in 2012 and 2011, respectively.

The unrealized losses for these endowment funds 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.

6. Fair Value

Financial instruments recorded at fair value in the statement of financial position are categorized in accordance with the fair value measurement hierarchy. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Colleges for these financial instruments on a recurring basis. The three levels of inputs are as follows:

Level 1 Quoted prices (unadjusted) 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 Colleges use the NAV to determine the fair value of all alternative investments that do not have a readily determinable fair value and that have financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Investments that can be redeemed at NAV by the Colleges on the measurement date or in the near term, 90 days or less, are classified as Level 2. Investments that cannot be redeemed on the measurement date or in the near term are classified as Level 3.

The methods described above may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Colleges believe these 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.

Below is a list of the Colleges' investments in other investment companies (or similar entities) by major investment category:

Real Estate
This category includes investments in commercial, residential improved and unimproved real estate primarily in the United States. Total commitments for these investments were approximately $13,554,000 with $1,804,701 unfunded at May 31, 2012 and $11,554,000 with $939,779 unfunded at May 31, 2011. The fair value of these investments at May 31, 2012 and 2011 was $6,827,504, and $6,479,662, respectively. The Colleges do not have redemption rights in these investments and the investments have remaining lives between one and eleven years.

Private Equity
This category includes investments in domestic and international private sector businesses and similar equity securities. Total commitments for these investments were approximately $13,500,000 with $2,227,778 unfunded at May 31, 2012 and $13,500,000 with $3,907,414 unfunded at May 31, 2011. The fair value of these investments at May 31, 2012 and 2011 was $10,540,735, and $7,529,793, respectively. The Colleges do not have redemption rights in these investments and the investments have remaining lives between one and seven years.

Hedge
This category includes investments in funds of funds and private investment companies that employ a multi-strategy investment approach. Total commitments for these investments were approximately $58,200,000 that were completely funded at May 31, 2012 and $54,200,000 that were completely funded at May 31, 2011. The fair value of these investments at May 31, 2012 and 2011 was $72,006,583 and $82,775,259, respectively. The Colleges may redeem these investments on a monthly, quarterly or annual basis with notice ranging from 7 days to 95 days.

The following table presents the financial instruments carried at fair value as of May 31, 2012 and 2011, by caption on the statement of financial position by the valuation hierarchy defined above:

	Assets at Fair Value			
	Level 1	**Level 2**	**Level 3**	**May 31, 2012 Total**
Short-term investments				
Fixed income and government securities	$ 6,036,113	$ -	$ -	$ 6,036,113
Common and preferred stocks	19,889			19,889
	$ 6,056,002	$ -	$ -	$ 6,056,002

	Assets at Fair Value			
	Level 1	**Level 2**	**Level 3**	**May 31, 2012 Total**
Long-term investments				
Cash and cash equivalents	$ 119,835	$ 10,690,867	$ -	$ 10,810,702
Fixed income and government securities	9,672,821	129,219		9,802,040
Common and preferred stocks	41,018,196	11,428,007		52,446,203
Real estate			6,827,504	6,827,504
Private equity			10,540,735	10,540,735
Hedge		44,737,196	27,269,387	72,006,583
Other		1,862,660		1,862,660
	$ 50,810,852	$ 68,847,949	$ 44,637,626	$ 164,296,427

	Assets at Fair Value			
	Level 1	**Level 2**	**Level 3**	**May 31, 2012 Total**
Contributions receivable perpetual trusts				
Perpetual interests held by others	$ -	$ -	$ 435,974	$ 435,974
	$ -	$ -	$ 435,974	$ 435,974

	Assets at Fair Value			
	Level 1	**Level 2**	**Level 3**	**May 31, 2012 Total**
Deposits with trustee of debt obligations				
Fixed income investments	$ 95	$ -	$ -	$ 95
	$ 95	$ -	$ -	$ 95

	Liabilities at Fair Value			
	Level 1	**Level 2**	**Level 3**	**May 31, 2012 Total**
Interest rate swap agreement				
Interest rate swap agreement	$ -	$ (9,173,152)	$ -	$ (9,173,152)
	$ -	$ (9,173,152)	$ -	$ (9,173,152)

	Assets at Fair Value			
	Level 1	Level 2	Level 3	May 31, 2011 Total
Short-term investments				
Fixed income and government securities	$ 5,899,303	$ -	$ -	$ 5,899,303
Common and preferred stocks	41,941	-	-	41,941
	$ 5,941,244	$ -	$ -	$ 5,941,244

	Assets at Fair Value			
	Level 1	Level 2	Level 3	May 31, 2011 Total
Long-term investments				
Cash and cash equivalents	$ 2,281,101	$ 10,327,291	$ -	$ 12,608,392
Fixed income and government securities	10,266,154	137,063	-	10,403,217
Common and preferred stocks	48,313,682	12,894,143	-	61,207,825
Real estate	-		6,479,662	6,479,662
Private equity	-		7,529,793	7,529,793
Hedge	-	52,809,755	29,965,504	82,775,259
Other	-	1,865,982	-	1,865,982
	$ 60,860,937	$ 78,034,234	$ 43,974,959	$ 182,870,130

	Assets at Fair Value			
	Level 1	Level 2	Level 3	May 31, 2011 Total
Contributions receivable perpetual trusts				
Perpetual interests held by others	$ -	$ -	$ 696,500	$ 696,500
	$ -	$ -	$ 696,500	$ 696,500

	Assets at Fair Value			
	Level 1	Level 2	Level 3	May 31, 2011 Total
Deposits with trustee of debt obligations				
Fixed income investments	$ 545,599	$ -	$ -	$ 545,599
	$ 545,599	$ -	$ -	$ 545,599

	Liabilities at Fair Value			
	Level 1	Level 2	Level 3	May 31, 2011 Total
Interest rate swap agreement				
Interest rate swap agreement	$ -	$ (5,692,817)	$ -	$ (5,692,817)
	$ -	$ (5,692,817)	$ -	$ (5,692,817)

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	Real Estate	Private Equity	Hedge	Long-term Investments Total
Beginning balance at June 1, 2011	$ 696,500	$ 6,479,662	$ 7,529,793	$ 29,965,504	$ 43,974,959
Realized gains (losses)	-	123,375	354,698	869	478,942
Unrealized gains (losses)	(260,526)	(195,794)	806,137	(1,470,776)	(860,433)
Purchases	-	690,694	14,850,679	2,607,224	18,148,597
Sales	$ -	270,433	13,000,572	3,833,434	17,104,439
Transfers in (out) of level 3	-	-	-	-	-
Ending balance at May 31, 2012	$ 435,974	$ 6,827,504	$ 10,540,735	$ 27,269,387	$ 44,637,626

	Perpetual Interest Held by Others	Real Estate	Private Equity	Hedge	Long-term Investments Total
Beginning balance at June 1, 2010	$ 393,141	$ 8,039,356	$ 7,317,464	$ 34,694,475	$ 50,051,295
Realized gains (losses)	-	130,170	594,648	(377,905)	346,913
Unrealized gains (losses)	303,359	(1,075,341)	277,873	2,791,509	1,994,041
Purchases	-	2,258,513	19,422,917	20,946	21,702,376
Sales	-	2,873,036	20,083,109	7,163,521	30,119,666
Transfers in (out) of level 3	-	-	-	-	-
Ending balance at May 31, 2011	$ 696,500	$ 6,479,662	$ 7,529,793	$ 29,965,504	$ 43,974,959

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.

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.

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.

Investments included in Level 3 primarily consist of the Colleges' ownership in alternative investments (principally limited partnership interests in hedge, private equity, and real estate). The value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership and do not have readily determinable fair values. The fair values of the securities held by limited partnerships 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.

7. Land, Buildings and Equipment

The components of land, buildings and equipment, as of May 31, 2012 and 2011 were as follows:

	2012	2011
Grounds	$ 3,407,792	$ 3,407,792
Site improvements	13,103,428	13,259,597
Buildings	153,945,212	150,706,428
Equipment	43,905,340	42,127,859
Library books	17,302,281	16,796,062
Construction in progress	2,691,244	1,407,134
	234,355,297	227,704,872
Accumulated depreciation	(95,735,954)	(89,222,608)
	$ 138,619,343	$ 138,482,264

Depreciation expense amounted to $7,643,150 and $7,532,371 in 2012 and 2011, respectively.

8. Borrowings

Borrowings consist of the following at May 31:

	Maturity Date	Interest Rate	Original Issue	2012	2011
City of Geneva Industrial Development Agency Revenue Bonds					
Series 2001 (a)	2031	4.0 - 5.2%	10,120,000	$ 8,125,000	$ 8,360,000
Series 2003A (a)	2033	3.0 - 5.4%	20,000,000	17,890,000	18,350,000
Series 2003B (a)	2023	4.8%	2,115,000	2,065,000	2,090,000
Series 2007 (b)	2037	Variable	31,250,000	28,975,000	29,575,000
Net bond premium				500,028	523,303
				57,555,028	58,898,303
Manufacturers and Traders Trust Company					
Term Note (c)	2023	6.98%	3,420,000	2,424,000	2,556,000
				$ 59,979,028	$ 61,454,303

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, 2012 ranged from .04% to.25%. 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 expired on September 3, 2012 and has been renewed for a two year period through September 3, 2014.

   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:

2013	$ 1,242,000
2014	1,347,500
2015	1,392,500
2016	1,437,500
2017	1,507,500
Thereafter	52,552,000
	59,479,000
Net bond premium	500,028
	$ 59,979,028

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 renewed, the principle amounts due in the principal debt service payments table would be:

2013	$ 10,275,333
2014	10,355,833
2015	10,375,834
2016	1,437,500
2017	1,507,500
Thereafter	25,527,000
	$ 59,479,000

The fair value of the Colleges' borrowings is estimated based on current rates for similar issues. The fair value of borrowings was approximately $61,058,000 and $62,251,000 at May 31, 2012 and 2011, respectively.

Bond Refunding
In June 2012, the Colleges issued $26,695,000 of Series 2012 City of Geneva Development Corporation Revenue Refunding Bonds. The proceeds of the bonds are being used to refund the outstanding principal amount of the City of Geneva Industrial Development Agency Series 2001, Series 2003A and 2003B. The bonds were issued as Fixed Rate bonds which mature in 2025 with rate that range from 1% to 5%.

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, 2012, the notional amount of the swap was $28,575,000. 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 $1,126,450 of expense in the statement of activities which represents the net cash payment for the difference between the Colleges' and the counterparty's payments under the swap. At May 31, 2012 and 2011, the Colleges recognized a decrease in net assets of $3,480,335 and $135,700, respectively, 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 2012 and 2011. The line of credit is renewed on an annual basis.

9. 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 $148,000 and $189,000 at May 31, 2012 and 2011, respectively. The maximum potential amount of undiscounted future payments that the Colleges could be required to make under this program is approximately $1,476,000.

10. Net Tuition and Fees

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

	2012	2011
Tuition and fees	$ 94,626,972	$ 88,657,539
Institutionally funded scholarships	(40,313,354)	(36,466,774)
Government funded grants	(285,270)	(717,970)
Net tuition and fees	$ 54,028,348	$ 51,472,795

11. 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 $3,011,000 and $2,909,000 for 2012 and 2011, respectively.

The Colleges offer 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).

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 $167,000 at May 31, 2012 and 2011.

13. Subsequent Event

The Colleges refunded two bond issues in June 2012. Refer to footnote 8 for further details.

The Colleges have performed an evaluation of subsequent events through January 18, 2013, the date on which the financial statements were issued.