

Hamilton College

Financial Statements

June 30, 2006 and 2005

Report of Independent Auditors

To the Board of Trustees
Hamilton College
Clinton, New York

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Hamilton College at June 30, 2006 and 2005, 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 College's 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 further discussed in Note 7, the College changed its method of accounting for conditional asset retirement obligations.



October 12, 2006

Hamilton College
Statements of Financial Position
June 30, 2006 and 2005

(dollars in thousands)

| | 2006 | 2005 |
|---|---------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 27,015 | \$ 19,654 |
| Student accounts receivable | 274 | 289 |
| Other accounts receivable | 2,049 | 1,750 |
| Inventories | 500 | 456 |
| Loans to students | 3,309 | 3,325 |
| Deposits with trustees of debt obligations | 20,356 | 35,019 |
| Collateral received for securities lending | 123,943 | 136,528 |
| Investments | 660,808 | 596,514 |
| Property, plant and equipment, net | 173,493 | 155,219 |
| Deferred financing costs | 2,088 | 2,187 |
| Fair value of interest rate swap | 1,295 | - |
| Other assets | 1,305 | 1,099 |
| Total assets | <u>\$ 1,016,435</u> | <u>\$ 952,040</u> |
| Liabilities and Net Assets | | |
| Accounts payable | \$ 3,945 | \$ 2,758 |
| Accrued liabilities | 3,746 | 2,168 |
| Deposits and advances | 4,876 | 4,537 |
| Long-term debt | 113,424 | 115,827 |
| Asset retirement obligation | 1,502 | - |
| Fair value of interest rate swap | - | 2,529 |
| Liability under securities lending transactions | 123,943 | 136,528 |
| Annuity and life income obligations | 27,795 | 27,171 |
| Funds held in trust for others | 2,974 | 2,020 |
| Accumulated postretirement benefit obligation | 2,835 | 2,721 |
| Refundable government student loan funds | 1,613 | 1,636 |
| Total liabilities | <u>286,653</u> | <u>297,895</u> |
| Net assets | | |
| Unrestricted | 470,733 | 416,267 |
| Temporarily restricted | 106,118 | 98,010 |
| Permanently restricted | 152,931 | 139,868 |
| Total net assets | <u>729,782</u> | <u>654,145</u> |
| Total liabilities and net assets | <u>\$ 1,016,435</u> | <u>\$ 952,040</u> |

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

Hamilton College
Statement of Activities
Year Ended June 30, 2006
(with comparative totals for 2005)

(dollars in thousands)

| | 2006 | | | | 2005 |
|--|--------------|------------------------|------------------------|------------|------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| Operating revenues | | | | | |
| Tuition and fees | \$ 64,084 | | | \$ 64,084 | \$ 59,133 |
| Scholarship aid | (20,059) | | | (20,059) | (18,117) |
| Net tuition and fees | 44,025 | | | 44,025 | 41,016 |
| Auxiliary enterprises | 15,663 | | | 15,663 | 13,977 |
| Investment return designated for operations | 6,358 | \$ 16,818 | | 23,176 | 22,538 |
| Private gifts and grants | 5,501 | 1,985 | | 7,486 | 6,992 |
| Government grants and contracts | 722 | 2,020 | | 2,742 | 2,791 |
| Other income | 1,887 | | | 1,887 | 1,295 |
| Net assets released from restrictions | 19,481 | (19,481) | | - | - |
| Total operating revenues | 93,637 | 1,342 | | 94,979 | 88,609 |
| Operating expenses | | | | | |
| Instruction | 38,344 | | | 38,344 | 34,478 |
| Research | 1,316 | | | 1,316 | 1,306 |
| Public service | 321 | | | 321 | 326 |
| Academic support | 12,149 | | | 12,149 | 11,106 |
| Student services | 10,327 | | | 10,327 | 9,638 |
| Institutional support | 14,915 | | | 14,915 | 14,231 |
| Auxiliary enterprises | 16,249 | | | 16,249 | 15,647 |
| Total operating expenses | 93,621 | | | 93,621 | 86,732 |
| Increase in net assets from operating activities | 16 | 1,342 | | 1,358 | 1,877 |
| Nonoperating activities | | | | | |
| Private gifts | 1,664 | 8,445 | \$ 3,320 | 13,429 | 11,782 |
| Investment return, net of amounts designated for operations | 43,294 | 12,692 | 4,834 | 60,820 | 47,705 |
| Debt defeasance | | | | - | (674) |
| Change in value of split interest agreements | - | (502) | (2,324) | (2,826) | (3,148) |
| Net assets released from restriction and changed restrictions | 5,945 | (13,114) | 7,169 | - | - |
| Change in fair value of interest rate swap | 3,824 | - | - | 3,824 | (3,439) |
| Other | 1,204 | (755) | 64 | 513 | 498 |
| Increase in net assets from nonoperating activities | 55,931 | 6,766 | 13,063 | 75,760 | 52,724 |
| Increase in net assets before cumulative effect of accounting change | 55,947 | 8,108 | 13,063 | 77,118 | 54,601 |
| Cumulative effect of accounting change | (1,481) | - | - | (1,481) | - |
| Increase in net assets | 54,466 | 8,108 | 13,063 | 75,637 | 54,601 |
| Net assets, beginning of year | 416,267 | 98,010 | 139,868 | 654,145 | 599,544 |
| Net assets, end of year | \$ 470,733 | \$ 106,118 | \$ 152,931 | \$ 729,782 | \$ 654,145 |

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

Hamilton College
Statement of Activities
Year Ended June 30, 2005

(dollars in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|------------------------|------------------------|------------|
| Operating revenues | | | | |
| Tuition and fees | \$ 59,133 | | | \$ 59,133 |
| Scholarship aid | (18,117) | | | (18,117) |
| Net tuition and fees | 41,016 | | | 41,016 |
| Auxiliary enterprises | 13,977 | | | 13,977 |
| Investment return designated for operations | 6,441 | \$ 16,097 | | 22,538 |
| Private gifts and grants | 5,473 | 1,519 | | 6,992 |
| Government grants and contracts | 789 | 2,002 | | 2,791 |
| Other income | 1,295 | | | 1,295 |
| Net assets released from restrictions | 18,324 | (18,324) | | - |
| Total operating revenues | 87,315 | 1,294 | | 88,609 |
| Operating expenses | | | | |
| Instruction | 34,478 | | | 34,478 |
| Research | 1,306 | | | 1,306 |
| Public service | 326 | | | 326 |
| Academic support | 11,106 | | | 11,106 |
| Student services | 9,638 | | | 9,638 |
| Institutional support | 14,231 | | | 14,231 |
| Auxiliary enterprises | 15,647 | | | 15,647 |
| Total operating expenses | 86,732 | | | 86,732 |
| Increase in net assets from operating activities | 583 | 1,294 | | 1,877 |
| Nonoperating activities | | | | |
| Private gifts | 1,157 | 3,444 | \$ 7,181 | 11,782 |
| Investment return, net of amounts designated for operations | 33,145 | 11,343 | 3,217 | 47,705 |
| Debt defeasance | (674) | - | - | (674) |
| Change in value of split interest agreements | - | (379) | (2,769) | (3,148) |
| Net assets released from restriction and changed restrictions | 8,518 | (8,688) | 170 | - |
| Change in fair value of interest rate swap | (3,439) | - | - | (3,439) |
| Other | 505 | - | (7) | 498 |
| Increase in net assets from nonoperating activities | 39,212 | 5,720 | 7,792 | 52,724 |
| Net increase in net assets | 39,795 | 7,014 | 7,792 | 54,601 |
| Net assets, beginning of year | 376,472 | 90,996 | 132,076 | 599,544 |
| Net assets, end of year | \$ 416,267 | \$ 98,010 | \$ 139,868 | \$ 654,145 |

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

Hamilton College
Statements of Cash Flows
Years Ended June 30, 2006 and 2005
Increase (Decrease) in Cash

(dollars in thousands)

| | 2006 | 2005 |
|--|------------------|------------------|
| Net cash flows from operating activities | | |
| Change in net assets | \$ 75,637 | \$ 54,601 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Contributions to endowment and facilities | (13,429) | (11,782) |
| Depreciation and amortization | 8,255 | 6,569 |
| Asset retirement obligation | 1,502 | - |
| Realized and unrealized (gains) loss on investments | (74,769) | (65,874) |
| Loss on disposal of plant and equipment | 1,121 | 2,185 |
| Debt defeasance | - | 674 |
| Change in fair value of interest rate swap | (3,824) | 3,439 |
| Increase in annuity and life income obligations | 4,488 | 3,315 |
| Net change in operating assets and liabilities | 1,185 | (206) |
| Cash flows provided by (used in) operating activities | <u>166</u> | <u>(7,079)</u> |
| Net cash from investing activities | | |
| Student loans, net | 16 | 230 |
| Purchase of property, plant and equipment, net | (26,050) | (26,304) |
| Purchase of investments | (277,080) | (225,171) |
| Proceeds from sales and maturities of investments | 287,556 | 242,966 |
| Decrease in funds held by trustees of debt obligations | 14,663 | 9,863 |
| Cash flows (used in) provided by investing activities | <u>(895)</u> | <u>1,584</u> |
| Net cash from financing activities | | |
| Contributions to endowment and facilities | 13,429 | 11,782 |
| Proceeds from debt | - | 8,775 |
| Payments on debt | (2,403) | (10,554) |
| Payments to beneficiaries of split interest agreements | (3,865) | (3,578) |
| Other financing activities | 929 | (92) |
| Cash flows provided by financing activities | <u>8,090</u> | <u>6,333</u> |
| Net increase in cash and cash equivalents | 7,361 | 838 |
| Cash and cash equivalents | | |
| Beginning of year | 19,654 | 18,816 |
| End of year | <u>\$ 27,015</u> | <u>\$ 19,654</u> |
| Supplemental disclosure of noncash investing activities | | |
| Increase in construction related payables | \$ 1,501 | \$ 49 |
| Supplemental disclosure | | |
| Cash paid for interest, including capitalized interest | \$ 4,874 | \$ 4,865 |
| Gifts in kind | 295 | 536 |

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

Hamilton College

Notes to Financial Statements

June 30, 2006 and 2005

(dollars in thousands)

1. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the College 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.

Non-operating 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.

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.

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 non-marketable investments for which a readily determinable fair value does not exist, are carried at estimated fair values provided by the investment managers. 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 these investments.

Hamilton College

Notes to Financial Statements

June 30, 2006 and 2005

(dollars in thousands)

Estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

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.

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.

Inventories

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

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.

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.

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Notes to Financial Statements

June 30, 2006 and 2005

(dollars in thousands)

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.

Taxation

The College is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code.

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 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. Actual results could differ from those estimates.

Risks and Uncertainties

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

Plan contributions and actuarial present value of accumulated plan benefits for the postretirement liability are prepared based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Hamilton College
Notes to Financial Statements
June 30, 2006 and 2005

(dollars in thousands)

2. Investments

Investments consist of the following at June 30:

| | 2006 | | 2005 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Fair Value | Cost | Fair Value | Cost |
| Cash and cash equivalents | \$ 38,962 | \$ 38,705 | \$ 21,535 | \$ 21,379 |
| Fixed income | 13,090 | 13,184 | 12,212 | 11,836 |
| Equity securities | 363,408 | 305,013 | 342,914 | 273,276 |
| Limited Partnership investments and other | 245,348 | 211,561 | 219,853 | 193,291 |
| | <u>621,846</u> | <u>529,758</u> | <u>574,979</u> | <u>478,403</u> |
| | <u>\$ 660,808</u> | <u>\$ 568,463</u> | <u>\$ 596,514</u> | <u>\$ 499,782</u> |

Certain investments are pooled on a fair value basis, with individual funds subscribing to or disposing of units based on the approximate fair value. The following table summarizes changes in relationships between cost and fair values of the pooled cash and investments.

| | Cost | Fair Value | Fair Value Per Unit |
|---------------------|-------------|-------------------|----------------------------|
| Pool A | | | |
| End of period | \$ 429,031 | \$ 466,336 | 25.95 |
| Beginning of period | 369,739 | 430,310 | 23.94 |
| Pool B | | | |
| End of period | 91,392 | 137,140 | 42.27 |
| Beginning of period | 86,200 | 114,583 | 35.53 |

For the years ended June 30, 2006 and 2005, 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 2006, the Board approved special appropriations of endowment investment return amounting to \$3,302 to fund debt service obligations and the capital campaign.

During 2006 and 2005, the College received \$2,615 and \$1,136, respectively, for annuity and life income gifts.

Hamilton College

Notes to Financial Statements

June 30, 2006 and 2005

(dollars in thousands)

The following schedule summarizes total investment return and its classification in the statements of activities for the years ended June 30:

| | 2006 | 2005 |
|--|------------------|------------------|
| Endowment income | \$ 9,227 | \$ 4,369 |
| Realized and unrealized gains on investments | 74,769 | 65,874 |
| Total return on investments | <u>83,996</u> | <u>70,243</u> |
| Investment return designated for current operations (spending policy distributions) | <u>(23,176)</u> | <u>(22,538)</u> |
| Investment return net of amounts designated for current operations | <u>\$ 60,820</u> | <u>\$ 47,705</u> |

Endowment income is presented net of investment management and custodial fees of \$4,408 and \$4,591 for the years ended June 30, 2006 and 2005, respectively.

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, 2006, on these investments approximated \$47,427.

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, 2006 and 2005, the College had loaned certain securities, with a fair value of \$119,735 and \$131,350, respectively, to several financial institutions that have provided collateral of \$123,943 and \$136,528 for the loaned securities. The College receives lending fees and continues to earn interest and dividends from the securities on loan.

3. Receivables

Student accounts receivable are net of a reserve of \$155 in 2006 and 2005. Other accounts receivables are net of a reserve of \$45 in 2006 and 2005. Loans to students are net of a reserve of \$550 in 2006 and 2005.

4. Deposits with Trustees of Debt Obligations

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

| | 2006 | 2005 |
|-------------------|------------------|------------------|
| Debt service fund | \$ 4,085 | \$ 4,515 |
| Construction fund | 16,271 | 30,504 |
| | <u>\$ 20,356</u> | <u>\$ 35,019</u> |

The deposits with trustees 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.

Hamilton College
Notes to Financial Statements
June 30, 2006 and 2005

(dollars in thousands)

5. Property, Plant and Equipment

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

| | 2006 | 2005 |
|--------------------------------|-------------------|-------------------|
| Land and improvements | \$ 8,320 | \$ 8,220 |
| Buildings | 193,088 | 131,512 |
| Equipment | 38,981 | 35,730 |
| | <u>240,389</u> | <u>175,462</u> |
| Less: Accumulated depreciation | (83,719) | (77,772) |
| | <u>156,670</u> | <u>97,690</u> |
| Projects in process | 16,823 | 57,529 |
| | <u>\$ 173,493</u> | <u>\$ 155,219</u> |

Depreciation expense of \$8,156 and \$6,481 in 2006 and 2005, respectively 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 \$52,000 of additional costs to complete the construction projects in process, which will be primarily financed with construction funds included in deposits with trustees, donations and future debt issuance.

6. Long-Term Debt

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

| | Maturity Date | Interest Rate | Original Issue | Balance June 30, 2006 | Balance June 30, 2005 |
|---|--------------------------|--------------------------|---------------------------|--------------------------------------|--------------------------------------|
| Oneida County Industrial Development Agency Civic Facility (a) | | | | | |
| Revenue Bonds Series 2002 | 09/15/32 | 4.1% | \$ 60,000 | \$ 56,105 | \$ 57,445 |
| Revenue Bonds Series 2005 | 07/01/15 | 3.0%-4.0% | \$ 8,775 | \$ 8,775 | \$ 8,775 |
| Dormitory Authority of the State of New York Revenue Bonds: (b) | | | | | |
| Series 1999 | 07/01/28 | 3.0%-5.1% | 52,160 | 46,345 | 47,410 |
| Banco Popular Espanol (c) | 02/01/22 | variable | 1,883 | 2,137 | 2,110 |
| Other note payable | 12/01/08 | 5.0% | 150 | 62 | 87 |
| | | | | <u>\$ 113,424</u> | <u>\$ 115,827</u> |

Hamilton College

Notes to Financial Statements

June 30, 2006 and 2005

(dollars in thousands)

Principal payments on long-term debt are as follows:

| | | |
|------------|----|----------------|
| 2007 | \$ | 3,361 |
| 2008 | | 3,486 |
| 2009 | | 3,592 |
| 2010 | | 3,705 |
| 2011 | | 3,840 |
| Thereafter | | 95,440 |
| | \$ | <u>113,424</u> |

- (a) Civic Facility Revenue Bonds are collateralized by the financed property and equipment.
- (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 1,900,000 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 exchange rates as of June 30, 2006.
- (d) The College maintains an interest rate swap agreement in relation to the Series 2002 bonds. The agreement entered into in September 2002 was to create a synthetic fixed rate for the College. The agreement has a notional amount of \$60,000,000 whereby the swap is calculated on a weekly basis using the weekly Bond Market Association (BMA) AAA municipal rate. 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 was an asset of \$1,295 at June 30, 2006 and a liability of \$2,529 at June 30, 2005.

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, 2006 is approximately \$114,700.

Interest expense was \$3,611 and \$2,910, net of capitalized interest of \$1,263 and \$1,955 for the year ended June 30, 2006 and 2005, respectively.

7. Asset Retirement Obligation

Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143) was issued in March 2005. This interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made.

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(dollars in thousands)

Upon adoption of FIN 47 on June 30, 2006, the College recognized \$1,481 as the effect of a change in accounting principle in the statement of activities. As of June 30, 2006, \$21 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and \$1,502 of conditional asset retirement obligations is reported as a liability on the statement of financial position.

8. Postretirement Health Care Benefits

The College provides health insurance benefits for eligible employees upon retirement. Information with respect to the Plan is as follows:

| | 2006 | 2005 |
|---|-------------------|-------------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 2,563 | \$ 3,256 |
| Service cost | 99 | 117 |
| Interest cost | 97 | 129 |
| Actuarial gain | (623) | (804) |
| Participant contributions | 283 | 285 |
| Benefits paid | (302) | (363) |
| Amendment/curtailments/special termination | 19 | (57) |
| Benefit obligation at end of year | <u>\$ 2,136</u> | <u>\$ 2,563</u> |
| Change in plan assets | | |
| Fair value of plan assets at end of year | \$ - | \$ - |
| Components of prepaid (accrued) benefit cost | | |
| Funded status | (2,136) | (2,563) |
| Unrecognized prior service cost | (223) | (280) |
| Unrecognized actuarial net (gain)/loss | (476) | 122 |
| Accrued benefit cost | <u>\$ (2,835)</u> | <u>\$ (2,721)</u> |
| Weighted average assumptions at June 30 | | |
| Discount rate | 6.38% | 5.25% |

For measurement purposes, the annual rates of increase per capita cost of covered medical and prescription drug benefits for fiscal year 2006 were assumed to be 8.0 and 12.0 percent, respectively. The rates were assumed to decrease gradually to 5.0 percent for fiscal year 2014 and remain at that level thereafter.

| | 2006 | 2005 |
|---|---------------|---------------|
| Components of net periodic benefit cost | | |
| Service cost | \$ 99 | \$ 117 |
| Interest cost | 97 | 129 |
| Amortization of unrecognized actuarial gain | (25) | - |
| Amortization of unrecognized prior service cost | (37) | (34) |
| | <u>\$ 134</u> | <u>\$ 212</u> |

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(dollars in thousands)

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:

| | 1% Point Increase | 1% Point Decrease |
|---|----------------------|----------------------|
| Effect on total of service and interest cost components | 26 | (25) |
| Effect on postretirement benefit obligation | 290 | (222) |

Cash Flow Contributions

Expected contributions to the post-retirement benefit plans net of employee contributions for fiscal 2007 are \$62.

9. 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 years ended June 30, 2006 and 2005 amounted to \$3,154 and \$3,005, respectively.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 were available for the following purposes:

| | 2006 | 2005 |
|--|-------------------|------------------|
| Program and student support | \$ 78,218 | \$ 67,939 |
| Acquisition of buildings and equipment | 9,186 | 6,952 |
| Life income and annuity contracts | 18,714 | 23,119 |
| | <u>\$ 106,118</u> | <u>\$ 98,010</u> |

11. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2006 and 2005 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.

Hamilton College
Notes to Financial Statements
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(dollars in thousands)

12. Expenses by Natural Classification

Operating expenses were incurred for the following during the years ended June 30:

| | 2006 | 2005 |
|-------------------------------|------------------|------------------|
| Salaries and wages | \$ 37,209 | \$ 35,617 |
| Benefits | 11,347 | 10,615 |
| Total compensation | <u>48,556</u> | <u>46,232</u> |
| Services and contracting | 5,262 | 4,745 |
| Supplies and minor equipment | 8,867 | 8,487 |
| Auxiliaries, costs of sales | 4,439 | 4,245 |
| Utilities | 5,144 | 3,947 |
| Travel and entertainment | 4,085 | 3,967 |
| Insurance and taxes | 1,158 | 1,116 |
| Depreciation and amortization | 8,255 | 6,569 |
| Interest | 3,611 | 2,910 |
| Other | 4,244 | 4,514 |
| Total expenses | <u>\$ 93,621</u> | <u>\$ 86,732</u> |