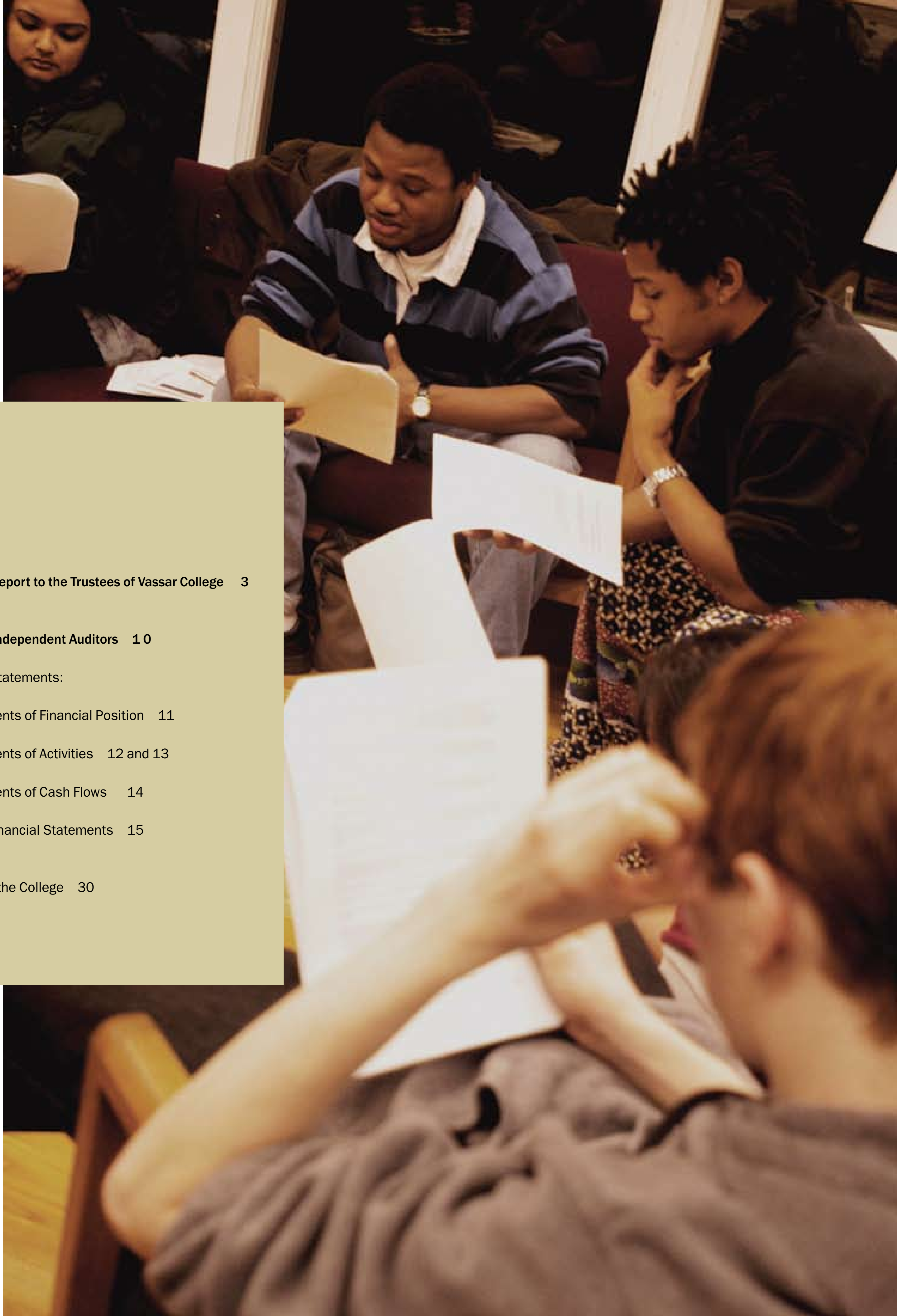
# Financial Report of Vassar College

*For the fiscal year ending June 30, 2006*



*Contents:*

## Financial Report to the Trustees of Vassar College

For the fiscal year ending June 30, 2006

Vassar's financial position strengthened significantly during the 2005/06 fiscal year. One major factor in the growth in net assets was the exceptional outpouring of gifts and pledges from alumnae/i and friends of the College in recognition of the 20-year career of retiring President Frances Daly Fergusson. Vassar recorded $50 million[1] in outright gifts and new pledges in 2005/06, $37.5 million toward endowment and facilities and $12.5 million for current use. Also contributing to the improvement in financial position, the College's endowment achieved double-digit returns for the third straight year, with a total return of 13.6%, outpacing its weighted benchmark by 350 basis points. Although the Statement of Activities continued to reflect a reduction in net assets from operating activities, operating revenues grew faster than operating expense, thus narrowing the gap compared to the prior year, despite the cost pressure created by spike in energy prices during 2005/06. The College remained committed to a generous program of financial aid, as well as to competitive salaries, wages and benefits for faculty and staff. The College also continued its multi-year program of campus renewal, completing extensive renovations in academic, athletic, and residential facilities. These achievements are reflected in all of the audited financial statements included in this report for the fiscal year ending June 30, 2006.

[1] This value reflects the present value of future pledge payments, as explained in Note 1 to the Financial Statements.

### Operations

Total operating revenue[2] of $136.5 million was recorded in 2005/06, with strong growth in each of the three largest categories of revenue – net revenue from student charges, endowment support, and private gifts. Operating revenue grew faster than operating expenses in 2005/06, resulting in a loss from operations of $1.95 million, significantly less than the previous fiscal year.

Student charges, net of financial aid, provided 55% of total operating revenue and continued to be the largest source of annual income for operations. Net revenue from tuition, fees, room and board of $75 million grew 6% over the prior fiscal year. Overall enrollment declined slightly in 2005/06, with on-campus undergraduate enrollment at 2,332 (expressed in full-time equivalents) compared to 2,385 in the prior year, and off-campus enrollment in study abroad programs averaging 147 students per term, compared to an average of 136 in the prior year. Just under 50% of the student body received grants from the College in 2005/06 based on families'

[2] Vassar develops a cash operating budget as a management tool to forecast and monitor cash receipts and outlays. The operating budget differs from the accrual-based accounts in the Statement of Activities in certain ways. The College recorded a loss of $92,000 in its operating budget for 2005/06, compared to the $1.9 million loss from operations in the Statement of Activities. The difference relates primarily to non-cash accruals such as depreciation. The Controller prepares an annual reconciliation of the reports for the Board's Audit Committee.

demonstrated financial needs, while the percentage receiving any form of need-based aid, including loans and campus employment was 57% of the student body. The overall number of students who qualified for financial aid decreased by 34 compared to the prior year, while total FTE enrollment decreased by 42. The comprehensive charge increased by 6.8% to $41,700 before financial aid. Institutional financial aid increased by 5%, growing more slowly in part as a result of the smaller number requiring need-based aid. Institutional grant aid represented 25.3% of gross student revenues, down slightly from 25.5% in 2004/05. Approximately 37% of the institutional financial aid is funded by endowment and gifts restricted for that purpose by donors, with the rest drawn from unrestricted endowment and gift income and other unrestricted sources.

Compensation expenditures for salaries, wages, and benefits for faculty and staff across all programs of the College accounted for 64% of operating expense, or $89 million in 2005/06. Vassar strives to compensate its faculty and staff at levels that are highly competitive in appropriate labor markets, recognizing that the quality of the College's programs is highly dependent on the quality of faculty and staff. The total spending on compensation increased by 4% over the prior year, although individual salary and wage increases varied depending upon merit evaluations and collective bargaining agreements.

Compensation remains the largest expenditure at the College, and thus policies affecting salaries, wages, benefits, and employment levels drive the overall rate of increase in operating expense. In 2005/06, Vassar experienced variation in cost increases by program, with Instruction rising by about 5.5%. Research expenditures actually decreased in comparison to the previous year, with a lower level of funded research activity. Auxiliary operations (such as food service, Alumnae House operations, computer store, faculty housing) also decreased in cost relative to the previous year, when certain one-time costs for retrospective premiums for workers compensation were assessed. Cost increases in student services and academic support operations were also moderate, rising 3% and 4% respectively. A spike in the cost of central administrative services occurred in 2005/06, related to the presidential search and transition, additional fundraising costs, and increased allocations for costs associated with the physical plant and post-retirement health insurance, distributed on a pro-rata basis.

**Generous Support**

The alumnae/i and friends of the College made 2005/06 a banner year, donating gifts and pledges of $50 million, a figure that reflects a discount for future pledge payments but excludes bequest intentions. Private gifts and grants for operating purposes increased by 25% over the prior year, reaching $12.6 million by year end. Private gifts and grants for non-operating purposes more than doubled, rising from $15.8 million in 2004/05 to $37.5 million in 2005/06. Of the $37.5 million in non-operating gifts and grants, $23.9 million was received in cash or gifts in kind, with the balance pledged for payment over the next several years. Forty-four percent of the non-operating gifts and pledges were directed toward endowment, and 54% was directed toward campus facilities and equipment.

Notable among the many wonderful donations that the College received in 2005/06 was the $10 million commitment of John Vogelstein and Barbara Manfrey Vogelstein, Class of 1976, in honor of President Fergusson. The College recognized their generosity by naming the new Center for Drama and Film (now the Vogelstein Center for Drama and Film) as a testament to their support for Vassar. The Vogelsteins' gift underwrites numerous projects in the College's ongoing program of campus renewal and improvement, including the final stage in the development of Prentiss Fields and planned renewal and improvement of Taylor Hall Auditorium.

Gifts of $14.3 million were received for endowed funds, including twenty-one funds newly established in 2005/06. The Marion Musser Lloyd '32 Chair in History or International Studies was created by the gift of Mary and Robert Estrin, in honor of Mary's mother, a devoted Vassar alumna. In addition, the College established eight endowments honoring President Frances D. Fergusson through the generosity of trustees, alumnae/i and friends of the College:

- The Fergusson Presidential Scholarship Fund, gifts from trustees
- The Frances D. Fergusson Scholarship Fund, gifts from many donors
- The Frances D. Fergusson Library Acquisitions Fund, gifts from many donors
- The Frances D. Fergusson Chair in the Humanities, gift of the Edward John and Patricia Rosenwald Foundation
- The Frances D. Fergusson Faculty Technology Exploration Fund, the gift of Frances H. White '56
- The Frances D. Fergusson Good Neighbors Endowment, to develop partnerships between Vassar and community organizations, gift of the Arnhold Foundation
- The Frances D. Fergusson Campus Preservation Fund, gifts from many donors

- The Frances Fergusson Fitness Fund, to support and maintain the Class of 1951 Fitness Center, founded by gifts of Stefan D. Abrams, James W. B. Benkard, Robert A. Bernhard, and Milbrey Rennie Taylor '68

The College also benefited from the vision and generosity of the Friends of the Frances Lehman Loeb Art Center, who donated twenty granite benches by conceptual artist Jenny Holzer, inscribed with selections from the poetry of Elizabeth Bishop, Class of 1934. The twenty benches symbolize the twenty years of service by President Fergusson, who was instrumental in the conception of the Frances Lehman Loeb Art Center. The benches line a reconstructed walkway, donated by Kirchhoff Construction, leading between Main Building and the Students' Building, and will provide inspiration for all who travel this path for years to come.

**Financial Assets**

The endowed funds of the College are invested primarily through a unitized pool of investments under the supervision of the Trustee Investments Committee. On June 30, 2006, the market value of the endowment had risen to $741.7 million, the net result after a total investment return, net of fees, of 13.6% for the fiscal year, spending of $38.4 million, and gifts and additions of $14.3 million. The total return of 13.6% exceeded the weighted benchmark for the endowment by 350 basis points, and finished near the top quartile of Cambridge Associates client endowments.[3] Over the ten year period ending June 30, 2006, the endowment has posted an average annual total return of 9.8%, net of fees, and outperformed the weighted benchmark by 90 basis points. Vassar's objective is to earn an investment return equal to the long-term average spending rate of approximately 5%, plus long-term inflation of about 3.0%, and an additional 1% for long-term growth.

The College also acts as trustee for deferred gifs and contracts that are invested to provide income streams to beneficiaries during their lifetimes, with the remainder passing to the College as a charitable donation. The deferred giving assets totaled $35.5 million by year end, and are included in the balance

3 The audited financial statements are based on March 31, 2006, results for long term partnership investments. Subsequent to the audit, the College's investment advisor, Cambridge Associates, restated the results to include four quarters ending June 20, 2006. As restated, the College's endowment posted a total return of 15.3%, 420 basis points better than the policy benchmark and in the top 16% of the 334 clients of Cambridge Associates.

sheet as part of the long-term investments of the College. For investment purposes, these assets are not commingled with the endowment, but are managed in separate accounts with investment strategy appropriate to each trust. The entire program is overseen by Kaspick & Company, a leading provider of deferred giving services. The deferred gift assets earned an aggregate total return of 10.4% in the fiscal year ending June 30, 2006, although returns varied by trust depending upon the objectives. Since inception in December 2001, Kaspick's oversight of Vassar's trust assets has earned a total return of 10.9% per year on the deferred gift assets.

The College is also responsible for oversight of the investment of the assets of the defined benefit pension plan, valued at $18.1 million at fiscal year end, held by a third party trustee and not reflected in the financial assets of the College. While the majority of College employees participate in defined contribution pension plans, service employees participate in the defined benefit pension plan. In March of 2006, the College contributed $3.95 million to raise the funded status of the plan. Total return on the plan assets was 9.6% for the twelve months ending June 30, 2006. The investment and beneficiary payment services for the pension plan are provided by Diversified Investment Advisors.

**The Campus**

The extensive renovation of Kenyon Hall was completed in 2005/06 with the addition of six state-of-the-art classrooms as part of the Classroom Master Plan; the conversion of the former swimming pool in Kenyon to the Frances D. Fergusson Dance Theater; and renewal of other dance and athletic facilities. As part of this 18-month project, all of the critical building systems and infrastructure were updated, including life safety, accessibility, mechanical, electrical, plumbing, and communications wiring. The College celebrated the re-opening of this truly multi-purpose facility with a celebration in May, honoring the major donors. Approximately 60% of the total cost was provided by private gifts, while the remainder was funded through proceeds of the 2001 bond issue and unrestricted sources.

In total, the College invested $28.2 million in fixed assets in 2005/06, including the completion of Kenyon; $2.2 million in library acquisitions; a $1.6 million investment in the wireless campus data network, thanks to the generosity of an anonymous donor; another $1 million in computer and networking equipment; and a continuing program of facility renewal projects around the campus. The Town House apartments received an infusion of $2.4 million in the summer of 2005, including kitchen and bath renovations, improvements in fire safety, lighting, and flooring. The entrances to three of the four Quad Houses were completely rebuilt, and additional improvements occurred in the Raymond House parlor and lobby. Planning for additional renewal efforts in the Quad Houses continued throughout the year, and by June, work had begun on Josselyn House parlor, lobby and residential hallways, as well as the multipurpose rooms of the Quad Houses. Sanders Physics received attention during the winter break, with an interior renewal of new lighting, floor refinishing, painting, and new furnishings in the library and other spaces. In addition, substantial funds were invested in very prosaic – but nonetheless essential – infrastructure and building systems, ranging from water line and steamline replacements to HVAC upgrades to roofing and masonry repairs.

#### Recognizing the Financial Staff

The financial statements always reflect the hard work of the accounting, investments, and budget planning staff of the College, and indeed of all those who administer programs and steward the financial and physical assets of the College. The 2005/06 fiscal year presented some additional challenges, however, for the financial staff and others as the College adopted new accounting requirements. A team of individuals drawn from different offices addressed the requirements of the Financial Accounting Standards Board's Interpretation Number 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). The financial analysis of materials that will eventually need to be removed at a cost to the College (primarily encapsulated asbestos) required a team approach involving Controller Gail Goodness, Budget Director David English, Executive Director of Buildings and Grounds Services Thomas Allen, and Director of Environmental Health and Safety James Kelly. A similar team effort took place to document fully the fair value of illiquid investments in alternative equities, thanks to Associate Vice President Stephen Dahnert, Executive Assistant Deanna Touhey, and Controller Gail Goodness. The dedication of all who cooperated in these special projects as well as the normal end-of-year financial closing was exemplary, and I want to publicly thank everyone involved. It is appropriate to recognize Controller Gail Goodness and Associate Controller Dana Kleinhans for their outstanding contribution to the College's records and controls thoughout the year. They are truly dedicated to serving this College and its extended community.

* * *

We celebrated the career and many contributions of Frances D. Fergusson in 2005/06, and also prepared for a new era under the leadership of Catharine B. Hill, 10th President of Vassar College. It is a pleasure to welcome her with strong financial performance by the College, a sound platform for the planning that is now taking place under her leadership.

Respectfully submitted on behalf of my colleagues,

Elizabeth A. S. Eismeier
Vice President for Finance and Administration

**Financial Statements**
**and Report of Independent Auditors**

June 30, 2006 and 2005

**PricewaterhouseCoopers LLP**
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## Report of Independent Auditors

To the Board of Trustees
Vassar College

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 Vassar College ("Vassar") 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 Vassar'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, which 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 noted in Note 8 to the financial statements, Vassar applied the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 47 and changed its method of accounting for conditional asset retirement obligations.

PricewaterhouseCoopers LLP

Albany, New York
September 29, 2006

**Vassar Collge**
**Statements of Financial Position**
**June 30, 2006 and 2005**

| | ***2006*** | ***2005*** |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 14,105,146 | $ 19,624,055 |
| Accounts receivable, net | | |
| Student accounts receivable | 374,576 | 166,160 |
| Student loans receivable | 2,606,038 | 2,632,568 |
| Grants receivable | 158,499 | 279,997 |
| Contributions receivable | 23,600,409 | 9,274,251 |
| Accrued investment income receivable | 2,500,655 | 2,185,075 |
| Inventories | 646,036 | 433,426 |
| Prepaid and other assets | 9,112,555 | 6,824,545 |
| Deposits held by trustee | 6,001,016 | 5,821,671 |
| Investments | 798,187,473 | 728,132,789 |
| Land, buildings and equipment, net | 278,074,191 | 263,490,760 |
| *Total assets* | $ 1,135,366,594 | $ 1,038,865,297 |
| **Liabilities** | | |
| Accounts payable and accrued expenses | 14,279,002 | $ 15,878,056$ |
| Deferred revenue and students' deposits | 4,251,869 | 3,949,735 |
| Refundable government loan funds | 2,872,869 | 2,837,383 |
| Present value of beneficiary payments | 11,839,179 | 11,668,982 |
| Deposits held for others | 4,161,840 | 4,331,370 |
| Long-term debt | 76,950,000 | 78,200,000 |
| Minimum pension liability | 3,361,534 | 8,228,691 |
| Asset retirement obligation (Note 8) | 9,011,962 | - |
| Accrued postretirement benefit obligation | 19,786,692 | 17,696,119 |
| *Total liabilities* | 146,514,947 | 142,790,336 |
| **Net Assets** | | |
| Unrestricted | 705,793,193 | 639,510,610 |
| Temporarily restricted | 75,251,477 | 67,515,524 |
| Permanently restricted | 207,806,977 | 189,048,827 |
| *Total net assets* | 988,851,647 | 896,074,961 |
| *Total liabilities and net assets* | $ 1,135,366,594 | $ 1,038,865,297 |

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

**Vassar College**
**Statements of Activities**
**Year Ended June 30, 2006 and Comparative Totals for 2005**

| | 2006 | | | | |
|---|---|---|---|---|---|
| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* | *2005 Total* |
| **Operating revenues** | | | | | |
| Tuition and fees | $ 84,681,366 | $ - | $ - | $ 84,681,366 | $ 79,178,511 |
| Room and board | 16,397,911 | | | 16,397,911 | 16,050,963 |
| | 101,079,277 | - | - | 101,079,277 | 95,229,474 |
| Less: Scholarships | (25,596,302) | | | (25,596,302) | (24,268,311) |
| Net tuition, fees, room and board | 75,482,975 | - | - | 75,482,975 | 70,961,163 |
| Investment return | | | | | |
| Interest and dividends | 12,745,729 | 2,184,241 | | 14,929,970 | 15,012,960 |
| Realized accumulated gains used to meet spending policy | 23,462,314 | | | 23,462,314 | 18,975,919 |
| Government grants | 1,651,457 | | | 1,651,457 | 1,541,701 |
| Private gifts and grants | 10,214,111 | 2,359,613 | | 12,573,724 | 10,027,986 |
| Other revenue | 3,610,959 | | | 3,610,959 | 3,789,193 |
| Auxiliary enterprises | 4,797,246 | | | 4,797,246 | 4,305,181 |
| Net assets released from restrictions | 3,965,173 | (4,093,649) | 128,476 | - | - |
| *Total operating revenues* | 135,929,964 | 450,205 | 128,476 | 136,508,645 | 124,614,103 |
| **Operating expenses** | | | | | |
| Instruction | 60,107,044 | | | 60,107,044 | 56,988,670 |
| Research | 2,918,675 | | | 2,918,675 | 3,675,482 |
| Academic support | 15,956,354 | | | 15,956,354 | 15,334,119 |
| Student services | 13,040,774 | | | 13,040,774 | 12,617,913 |
| Institutional support | 28,786,210 | | | 28,786,210 | 25,683,841 |
| Auxiliary enterprises | 17,650,871 | | | 17,650,871 | 19,526,431 |
| *Total operating expenses* | 138,459,928 | - | - | 138,459,928 | 133,826,456 |
| Change in net assets from operations | (2,529,964) | 450,205 | 128,476 | (1,951,283) | (9,212,353) |
| **Non-operating activities** | | | | | |
| Private gifts | 892,508 | 19,026,704 | 17,554,817 | 37,474,029 | 15,816,879 |
| Interest and dividends | | 541,065 | | 541,065 | 1,060,799 |
| Adjustment for minimum pension liability | 2,971,538 | | | 2,971,538 | (2,795,682) |
| Realized and unrealized gains | 73,926,741 | 6,961,182 | 282,423 | 81,170,346 | 76,829,299 |
| Realized gains used to meet spending policy | (23,462,314) | | | (23,462,314) | (18,975,919) |
| Terminated deferred gifts | 171,415 | (353,746) | 182,331 | - | - |
| Gain (loss) of disposal of fixed assets | 5,874,724 | | | 5,874,724 | (304,956) |
| Changes in value of deferred gifts | - | (2,449,662) | 1,574,602 | (875,060) | 3,013,379 |
| Net assets released from restrictions | 17,404,294 | (16,439,795) | (964,499) | - | - |
| Change in net assets from nonoperating activities | 77,778,906 | 7,285,748 | 18,629,674 | 103,694,328 | 74,643,799 |
| Change in net assets before effect of a change in accounting principle | 75,248,942 | 7,735,953 | 18,758,150 | 101,743,045 | 65,431,446 |
| Cumulative effect of a change in accounting principle | (8,966,359) | - | - | (8,966,359) | - |
| Increase in net assets after cumulative effect of a change in accounting principle | 66,282,583 | 7,735,953 | 18,758,150 | 92,776,686 | 65,431,446 |
| *Net assets at beginning of year* | 639,510,610 | 67,515,524 | 189,048,827 | 896,074,961 | 830,643,515 |
| *Net assets at end of year* | $ 705,793,193 | $ 75,251,477 | $ 207,806,977 | $ 988,851,647 | $ 896,074,961 |

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

**Vassar College**
**Statements of Activities**
**Year Ended June 30, 2005**

| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
|---|---|---|---|---|
| **Operating revenues** | | | | |
| Tuition and fees | $ 79,178,511 | $ - | $ - | $ 79,178,511 |
| Room and board | 16,050,963 | | | 16,050,963 |
| | 95,229,474 | - | - | 95,229,474 |
| Less: Scholarships | (24,268,311) | | | (24,268,311) |
| Net tuition, fees, room and board | 70,961,163 | - | - | 70,961,163 |
| Investment return | | | | |
| Interest and dividends | 14,304,046 | 708,914 | | 15,012,960 |
| Realized accumulated gains used to meet spending policy | 18,975,919 | | | 18,975,919 |
| Government grants | 1,541,701 | | | 1,541,701 |
| Private gifts and grants | 8,987,411 | 1,040,575 | | 10,027,986 |
| Other revenue | 3,789,193 | | | 3,789,193 |
| Auxiliary enterprises | 4,305,181 | | | 4,305,181 |
| Net assets released from restrictions | 2,561,671 | (2,497,042) | (64,629) | - |
| *Total operating revenues* | 125,426,285 | (747,553) | (64,629) | 124,614,103 |
| **Operating expenses** | | | | |
| Instruction | 56,988,670 | | | 56,988,670 |
| Research | 3,675,482 | | | 3,675,482 |
| Academic support | 15,334,119 | | | 15,334,119 |
| Student services | 12,617,913 | | | 12,617,913 |
| Institutional support | 25,683,841 | | | 25,683,841 |
| Auxiliary enterprises | 19,526,431 | | | 19,526,431 |
| *Total operating expenses* | 133,826,456 | - | - | 133,826,456 |
| Change in net assets from operations | (8,400,171) | (747,553) | (64,629) | (9,212,353) |
| **Non-operating activities** | | | | |
| Private gifts | 5,542,995 | 2,689,334 | 7,584,550 | 15,816,879 |
| Interest and dividends | 174,094 | 886,705 | | 1,060,799 |
| Adjustment for minimum pension liability | (2,795,682) | | | (2,795,682) |
| Realized and unrealized gains | 69,123,138 | 7,706,161 | | 76,829,299 |
| Realized gains used to meet spending policy | (18,975,919) | | | (18,975,919) |
| Terminated deferred gifts | 491,334 | (491,334) | | - |
| Loss of disposal of fixed assets | (304,956) | | | (304,956) |
| Changes in value of deferred gifts | | 2,901,747 | 111,632 | 3,013,379 |
| Net assets released from restrictions | 20,584,338 | (20,751,278) | 166,940 | - |
| Change in net assets from nonoperating activities | 73,839,342 | (7,058,665) | 7,863,122 | 74,643,799 |
| Net increase in net assets | 65,439,171 | (7,806,218) | 7,798,493 | 65,431,446 |
| *Net assets at beginning of year* | 574,071,439 | 75,321,742 | 181,250,334 | 830,643,515 |
| *Net assets at end of year* | $ 639,510,610 | $ 67,515,524 | $ 189,048,827 | $ 896,074,961 |

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

**Vassar College**
**Statements of Cash Flows**
**Years Ended June 30, 2006 and 2005**

| | 2006 | 2005 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 92,776,686 | $ 65,431,446 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 12,683,636 | 12,129,724 |
| Bad debt expense | 73,046 | - |
| Student loan allowance | 5,704 | (186,001) |
| (Gain) loss on disposal of fixed assets | (5,874,724) | 304,956 |
| Government loan cancellations | 7,593 | 11,134 |
| Present value of beneficiary payments | 170,197 | (3,013,379) |
| Investment income on life income and annuity agreements | (958,856) | (1,026,494) |
| Payment to beneficiaries | 1,663,719 | 1,697,140 |
| Accrued post-retirement benefit obligation | 2,090,573 | 1,150,740 |
| Non-operating contributions | (23,011,774) | (14,046,815) |
| Gifts in kind | (892,508) | (3,783,525) |
| Realized and unrealized gains on investments | (81,170,346) | (76,829,299) |
| Cumulative effect of change in accounting principle | 8,966,359 | - |
| Change in pension liability | (4,867,157) | 3,490,738 |
| Changes in assets and liabilities that provide (use) cash: | | |
| Accounts receivable | (14,486,122) | 2,271,121 |
| Accrued investment income receivable | (315,581) | (58,115) |
| Inventories | (212,610) | (61,365) |
| Prepaid and other assets | (2,288,010) | (2,347,342) |
| Accounts payable and accrued expenses | (4,200,974) | 5,971,938 |
| Deferred revenue and students' deposits | 302,134 | (610,399) |
| Deposits held for others | (169,530) | (130,120) |
| *Net cash used in operating activities* | (19,708,545) | (9,633,917) |
| **Cash flows from investing activities** | | |
| Purchases of land, buildings and equipment | (25,570,947) | (22,935,037) |
| Proceeds from sale of fixed assets | 7,718,635 | - |
| Deposits held by trustee | (179,345) | 6,496,810 |
| Proceeds from student loans collections | 803,477 | 706,194 |
| Student loans issued | (790,244) | (500,654) |
| Purchases of investments | (542,089,606) | (191,881,668) |
| Proceeds from sales and maturities of investments | 553,205,268 | 206,319,905 |
| *Net cash used in investing activities* | (6,902,762) | (1,794,450) |
| **Cash flows from financing activities** | | |
| Contribution for investment in endowment | 14,320,184 | 8,245,465 |
| Contribution for investment in long-lived assets | 6,981,731 | 4,945,577 |
| Contribution for investment in life income agreements | 1,709,860 | 855,773 |
| Investment income on life income and annuity agreements | 958,856 | 1,026,494 |
| Payments to beneficiaries | (1,663,719) | (1,697,140) |
| Increase (decrease) in refundable government loan funds | 35,486 | (6,642) |
| Payments on long-term debt | (1,250,000) | (1,180,000) |
| *Net cash provided by financing activities* | 21,092,398 | 12,189,527 |
| *Net (decrease) increase in cash and cash equivalents* | (5,518,909) | 761,160 |
| Cash and cash equivalents, beginning of year | 19,624,055 | 18,862,895 |
| Cash and cash equivalents, end of year | $ 14,105,146 | $ 19,624,055 |
| **Supplemental data** | | |
| Interest paid | $ 4,108,994 | $ 4,178,994 |
| noncash investing activities | | |
| Gifts in kind | $ 892,508 | $ 3,783,525 |
| Purchases of capital assets included in account payable | $ 2,601,920 | $ 3,730,859 |

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

## 1. Summary of Significant Accounting Policies

### Organization

Vassar College (the "College") was founded in 1861 and is a coeducational, independent, liberal arts college located in Poughkeepsie, New York.

### Basis of Presentation

The financial statements of the College have been prepared on the accrual basis of accounting.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- *Permanently Restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets. Such assets primarily include the College's permanent endowment funds.
- *Temporarily Restricted* – Net assets whose use by the College is subject to donor imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.
- *Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Unconditional contributions are recognized as contributions receivable at their estimated net present value when pledged. Contributions and investment return with donor-imposed restrictions are reported as permanently or temporarily restricted revenues and net assets. Temporarily restricted net assets are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction. Temporarily restricted contributions and investment return received and expended for the restricted purpose in the same fiscal year are recorded as unrestricted net assets. Expenses are generally reported as decreases in unrestricted net assets.

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

Non-operating activities include contributions to be used for facilities and equipment or to be invested by the College to generate a return that will support operations. Non-operating activities also include the realized and unrealized gains/losses net of spending policy for the year, adjustment for minimum pension liability, changes in deferred gifts as well as investment income on deferred gifts and gifts to support land, buildings and equipment.

### 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash and cash equivalents representing operating funds include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents are reported at cost which approximates fair value.

### Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with realized and unrealized gains and losses included in the statement of activities. Quoted market prices are used to determine fair value for fixed income and equity investments.

In 2006 and 2005, the estimated fair value of venture capital, real estate and similar investments is based on valuations provided by the external investment managers as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30.

The estimated fair value of hedge fund investments is based on valuations provided by the external managers as of June 30. Valuations of non-marketable investments in partnerships are based on reports from the general partners and subject to due diligence and various monitoring activities undertaken by the College and its investment consultants.

The College believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because the limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Realized gains and losses on the sale of the College's investments are based upon the average cost of the investment. All investment transactions are recorded on a trade date basis.

#### Receivables

The College extends credit to students in the form of accounts receivable and loans for educational purposes.

At June 30, 2006 and 2005, student accounts receivable are net of an allowance for doubtful accounts of $80,000 and $59,000, and student loans receivable are net of an allowance for doubtful accounts of $472,000 and $467,000 for 2006 and 2005, respectively.

It is not practical to determine the fair value of student loan receivables because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms, and are subject to significant restrictions as to their transfer or disposition.

#### Contributions Receivable

At June 30, contributions receivable are estimated to be collectable as follows:

| | *2006* | *2005* |
|---|---|---|
| Within one year | $ 2,239,306 | $ 3,251,335 |
| One to five years | 24,035,439 | 6,213,015 |
| Over five years | 1,254,900 | 1,309,000 |
| | 27,529,645 | 10,773,350 |
| Less: Present value discount | (3,395,258) | (1,082,598) |
| Allowance for uncollectible pledges | (533,978) | (416,501) |
| | $ 23,600,409 | $ 9,274,251 |

Bequest intentions totaling approximately $32,460,000 have been excluded from these amounts and are not recorded in the financial statements due to the fact that these are conditional.

#### Inventories

Inventories are valued at the lower of cost or market, based upon the first-in, first-out method. Inventory consists primarily of items used in food preparation, health services, computer related items for sale on campus, and fuel oil stores.

### Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, or if donated, at estimated fair market value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | ***Years*** |
|---|---|
| Land improvements | 10 years |
| Buildings | 50 years |
| Building improvements | 10 years |
| Equipment | 7 years |
| Personal computers | 4 years |
| Library books | 10 years |

Works of art, historical treasures and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations at the date of acquisition or donation. Depreciation is partially funded each year by Vassar through the budget process. Remaining depreciation expense is funded through existing net assets.

The policy for recognition of asset retirement obligations was changed as of June 30, 2006, to include accruals for the estimated disposal costs of certain hazardous materials present on the College's property pursuant to our adoption of FIN 47. See Note 8.

When an asset retirement obligation is identified, the College records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset.

### Deferred Gift Arrangements

The College's deferred gift arrangements with donors consist of irrevocable charitable remainder trusts, charitable gift annuities and pooled income funds for which the College is the remainder beneficiary. Assets held in these trusts are included in investments. Contribution revenues are recognized at the dates the trusts are established net of the liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The liability for the present value of deferred gifts is based upon actuarial estimates and assumptions regarding the duration of the arrangements and the assumed discount rate. Circumstances affecting these assumptions can change the estimate of this liability in future periods.

### Workers Compensation

The College recognizes a workers compensation liability for future payments for current and prior year claims. The liability is based on estimated future payments discounted to present value.

#### Spending from Endowment Funds

The College has adopted a "total return" policy for endowment spending. This approach considers current yield (primarily interest and dividends) as well as the net appreciation in the market value of investments when determining a spending amount. Under this policy, the Board of Trustees establishes a spending rate which is then applied to the average market value of investments. Current yield is recorded as revenue and the difference between current yield and the spending rate produces the use of realized gains spent under the total return formula. During fiscal year 2005, certain restricted endowment funds did not have sufficient accumulated unspent income or gains to fund market deficiencies and their spending allocation and permanently funded the spending allocation and market value losses from unrestricted endowment.

#### Endowment and Similar Funds

Included in the Statement of Financial Position under the caption of Investments are assets of the College's Endowment and Similar funds. These institutional funds are invested in perpetuity to produce income to support operations of the College. Investment guidelines are set under the direction of the Investments Committee of the Board of Trustees with the objective to enhance the real market value of the portfolio while providing a relatively predictable and growing stream of revenue to the College's operating budget. The majority of the endowment and similar funds are unitized and invested in a consolidated pool. Non-consolidated investments are invested separately. Consolidated funds are added to or withdrawn from the fund at the unit market value of the fund at the beginning of the quarter in which the transaction occurred. The Board approves, annually, a regular spending rate for the endowment. Current policy is that spending will be increased annually based on the consumer price index, lagged one year, plus 1% such that the resulting rate should not exceed 5.5% nor be less than 4.5% of the trailing 12-quarter average market value of the fund, lagged one year. In addition, the Board may approve supplemental spending from the endowment for capital renovations or additional budget support. During 2006, the Board approved supplemental spending in the amount of $3.0 million for plant renewal, $750,000 for interest payments, and additional funding for campaign expenses. For fiscal years 2006 and 2005, the following information is pertinent to the College's endowment and similar funds.

| | *June 30,* | |
|---|---|---|
| | ***2006*** | ***2005*** |
| Fair value of investments | $ 741,655,000 | $ 671,354,000 |
| Income for operations | 38,392,284 | 33,988,879 |
| Number of units | 9,770,147 | 9,551,177 |
| Market value per unit | 74.44 | 68.33 |
| Spending rate per unit | 3.45 | 3.45 |
| Yield per unit | 1.42 | 1.46 |
| Realized gains used to meet spending policy | 23,462,314 | 18,975,919 |
| Investment return | 13.6% | 13.6% |

#### Internal Revenue Code status

The College has been granted tax-exempt status as a nonprofit organization under Section 501 (c)(3) of the Internal Revenue Code.

## 2. Financial Instruments

### Investments

Investments consist of the following as of June 30:

| | Fair Value | |
|---|---|---|
| | ***2006*** | ***2005*** |
| Short-term investments (a) | $ 64,968,193 | $ 46,646,721 |
| Fixed income-bonds | 113,213,424 | 140,501,143 |
| Marketable real estate | (b) 5,585,263 | 5,282,264 |
| Equity investments: | | |
| U.S. Stocks | 257,862,330 | 275,258,228 |
| International Stocks | 125,574,262 | 95,319,401 |
| Hedge funds (c) | 105,715,943 | 71,716,230 |
| Real estate, oil and gas partnerships (d) | 51,530,585 | 41,511,810 |
| Venture capital/private placements (e) | 57,918,602 | 49,816,902 |
| Institutional mutual fund (f) | 13,599,011 | – |
| Balanced accounts (g) | 2,071,330 | 1,929,306 |
| Other | 148,530 | 150,784 |
| *Total* | $ 798,187,473 | $ 728,132,789 |

(a) Consists of amounts temporarily invested in money market instruments, commercial paper, and cash management funds.

(b) Consists of marketable real estate investments.

(c) Consists of investments in various securities, including U.S. and international stocks and bonds, often through offshore fund companies.

(d) The College is committed to advance an additional $27,459,000 for real estate, oil, and gas investments over a 5 year period. The majority of the investment valuation in 2006 and 2005 is based upon March 31, 2006 and March 31, 2005 valuation estimates from the general partner (Note 1), respectively.

(e) The College is committed to advance an additional $41,663,000 for venture capital and private placement investments over a 5 year period. The investment valuation in 2006 and 2005 is based upon March 31, 2006 and March 31, 2005 valuation estimates from the general partner (Note 1), respectively.

(f) Consists of a fund investing in commodities, including derivative securities related to commodities, and fixed income. The investment valuation in 2006 is based upon March 31, 2006 valuation estimates from the investment fund manager (Note 1).

(g) Consists of amounts invested in equity and fixed income mutual funds.

Total dividends, interest and realized and unrealized gains and losses reflected as both operating and non-operating activities are shown as follows:

| | ***2006*** | ***2005*** |
|---|---|---|
| Dividends and interest available for spending | $ 14,929,970 | $ 15,012,960 |
| Realized gains | 89,235,541 | 46,315,953 |
| Unrealized (losses) gains | (8,065,195) | 30,513,346 |
| Total return | 96,100,316 | 91,842,259 |
| Less: Amounts allocated for spending | (23,462,314) | (18,975,919) |
| *Net realized, unrealized gains and interest earnings* | $ 72,638,002 | $ 72,866,340 |

**Long-Term Debt**

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

| | ***2006*** | ***2005*** |
|---|---|---|
| Industrial Development Agency of Dutchess County maturity in 2041 with interest rate of 5.35%. Principal repayments begin in 2031. | $ 50,000,000 | $ 50,000,000 |
| Dormitory Authority of the State of New York Revenue Bonds, Series 1995, maturing in 2025, with interest of 3.5% to 6.0%. Collateralized by pledge of tuition and fees. | 26,950,000 | 28,200,000 |
| | $ 76,950,000 | $ 78,200,000 |

Principal maturities on all long-term debt is as follows as of June 30, 2005:

| | |
|---|---|
| 2007 | $ 1,325,000 |
| 2008 | 1,405,000 |
| 2009 | 1,475,000 |
| 2010 | 1,545,000 |
| 2011 | 1,625,000 |
| Thereafter | 69,575,000 |
| | $ 76,950,000 |

Interest expense for the years ended June 30, 2006 and 2005 was $4,108,994 and $4,178,994, respectively.

Management believes that the fair value of the College's long-term debt approximates $78,089,562 based on prevailing rates available.

The Dormitory Authority of the State of New York Revenue Bonds and the Dutchess County Industrial Development Agency require the College to establish certain reserve funds. As of June 30, included in the caption "deposits held by trustee", are the following:

| | *2006* | *2005* |
|---|---|---|
| Dormitory Authority of the State of New York: | | |
| Debt Reserve Fund | $ 1,360,567 | $ 1,356,318 |
| Building and Equipment Reserve | 1,444,125 | 1,398,406 |
| Debt Reserve Fund | 2,106,551 | 2,015,908 |
| Dutchess County Industrial Development Agency: | | |
| Construction Fund | 1,089,773 | 1,051,039 |
| | $ 6,001,016 | $ 5,821,671 |

In addition, the Dormitory Authority of the State of New York requires the College to maintain certain liquidity ratios.

#### Line of Credit

The College maintains one line of credit for $10,000,000 which was unused as of June 30, 2006 and 2005. As of June 30, 2006, $949,000 in standby letters of credit were outstanding.

### 3. Land, Buildings and Equipment

Land, buildings and equipment consist of the following as of June 30:

| | *2006* | *2005* |
|---|---|---|
| Land | $ 2,007,427 | $ 2,627,516 |
| Land improvements | 8,745,503 | 8,695,753 |
| Buildings and improvements | 291,946,095 | 260,962,056 |
| Equipment (including personal computers) | 58,066,458 | 55,989,821 |
| Library books | 35,932,343 | 33,756,765 |
| Art works and collectibles | 41,368,238 | 40,519,983 |
| Construction in progress | 1,346,397 | 11,734,512 |
| | 439,412,461 | 414,286,406 |
| Less: Accumulated depreciation | (161,338,270) | (150,795,646) |
| | $ 278,074,191 | $ 263,490,760 |

Depreciation expense for the years ended June 30, 2006 and 2005 was $12,683,636 and $12,129,724, respectively.

The College is committed to spend $6,571,000 in construction projects in fiscal year 2007.

#### 4. Employee Benefits – Pension Plan

Retirement benefits for substantially all full-time employees are provided under a defined contribution program with the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). The College makes annual contributions to TIAA-CREF based on eligible employees' earnings and age. Contributions for the years ended June 30, 2006 and 2005 totaled approximately $5,999,252 and $5,548,885, respectively.

Retirement benefits for secretarial, clerical and technical employees were provided under a defined benefit plan until December 31, 1983. However, since 1984, these employees have participated in the previously described defined contribution plan through TIAA-CREF.

Retirement benefits for service, auxiliary and security employees are provided under a defined benefit plan. The College contributed $3,950,000 in the fiscal year ending June 30, 2006, and did not make a contribution in the year ending June 30, 2005.

The following table sets forth information related to the College's defined benefit pension plan:

| | *Pension Benefits* | |
|---|---|---|
| | ***2006*** | ***2005*** |
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | $ 21,899,111 | $ 18,516,763 |
| Service cost | 700,096 | 559,029 |
| Interest cost | 1,113,716 | 1,079,267 |
| Plan amendment | 1,117,208 | - |
| Benefits paid | (1,005,396) | (1,220,832) |
| Actuarial (gain) loss | (2,394,365) | 2,964,884 |
| Benefit obligation at end of year | $ 21,430,370 | $ 21,899,111 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | $ 13,670,420 | $ 13,778,810 |
| Actual return on plan assets | 1,453,812 | 1,112,442 |
| Employer contributions | 3,950,000 | - |
| Benefits paid | (1,005,396) | (1,220,832) |
| Fair value of plan assets at end of year | 18,068,836 | $ 13,670,420 |
| Reconciliation of funded status and total amount recognized | | |
| Funded status | $ (3,361,534) | $ (8,228,691) |
| Unrecognized actuarial loss | 4,340,233 | 7,311,771 |
| Unrecognized prior service cost | 2,647,390 | 1,808,281 |
| Net amount recognized at year-end | $ 3,626,089 | $ 891,361 |
| Additional minimum pension liability | (6,987,623) | (9,120,052) |
| Accrued benefit cost | $ (3,361,534) | $ (8,228,691) |

| | ***Pension Benefits*** | |
|---|---|---|
| | ***2006*** | ***2005*** |
| Amounts recognized in statement of financial position consist of | | |
| Prepaid pension cost | $ - | $ - |
| Accrued pension liability | (3,361,534) | (8,228,691) |
| Intangible asset (included in prepaid expenses) | 2,647,390 | 1,808,281 |
| Accumulated other comprehensive income (included in unrestricted net assets) | 4,340,233 | 7,311,771 |
| Net amount recognized | $ 3,626,089 | $ 891,361 |
| Components of net periodic pension cost | | |
| Service cost | $ 700,096 | $ 559,029 |
| Interest cost | 1,113,716 | 1,079,267 |
| Expected return on plan assets | (1,211,612) | (1,126,235) |
| Amortization of prior service cost | 278,099 | 219,984 |
| Recognized actuarial loss | 334,973 | 182,995 |
| Net periodic pension cost | $ 1,215,272 | $ 915,040 |
| Changes recorded in non-operative activities | | |
| Accumulated comprehensive loss, current year | $ 4,340,233 | $ 7,311,771 |
| Accumulated comprehensive income, prior year | (7,311,771) | (4,516,089) |
| Other comprehensive (income) loss, recognized in non-operating activities | $ (2,971,538) | $ 2,795,682 |
| Amount included in non-operating activities arising from a change in excess of additional minimum pension liability over intangible asset | | |
| (Decrease) increase in additional minimum liability | $ (2,132,429) | $ 2,575,698 |
| Decrease (increase) in intangible asset | (839,109) | 219,984 |
| Other comprehensive (income) loss | $ (2,971,538) | $ 2,795,682 |
| Weighted-average assumptions used to determine funded status and net cost as of | June 30, 2006 | June 30, 2005 |
| Discount rate | 6.00% | 5.00% |
| Rate of compensation increase | 4.00% | 4.00% |
| Expected long-term rate of return on plan assets | 8.50% | 8.50% |

The expected benefit payments from the Plan are as follows:

| | |
|---|---|
| June 30, 2007 | $ 1,139,600 |
| June 30, 2008 | 1,192,500 |
| June 30, 2009 | 1,237,600 |
| June 30, 2010 | 1,287,500 |
| June 30, 2011 | 1,333,500 |
| Succeeding 5 years | 7,429,400 |

The College anticipates making plan contributions of $2,900,000 to the Plan in fiscal 2007.

### Defined Benefit Plan Investment Policy

The Committee on Investments of the Board of Trustees directs the investment of Plan assets, and the Committee has established a formal investment policy for the Plan. As stated in the Policy, the goal is to generate a long-term real rate of return of 5.5%-6.0% while sustaining moderate levels of risk. Target weightings for asset classes in the investment policy have been established based upon long-term expected real rates of return and correlation of returns as developed by the College's investment consultant and staff. These target weightings, bounded by allowable ranges, are expected to allow the Plan assets to meet its objectives over the long-term with respect to investment return, volatility, and liquidity.

Target weightings and actual rates of return for each asset class in the Plan are as follows:

| Asset Mix | 2006 | Actual June 30, | |
|---|---|---|---|
| | Target | 2006 | 2005 |
| Equities | 60% | 65% | 66% |
| Fixed income | 30 | 23 | 32 |
| Real estate | 10 | 10 | - |
| Other | - | 2 | 2 |
| | 100% | 100% | 100% |

### 5. Employee Benefits – Post Retirement Health Insurance

The College also provides post retirement medical benefits for certain retirees and employees. The cost of post retirement benefits is accrued as earned during an employee's service with the College. The following tables represent the post retirement plan's funded status and amounts recognized in the 2006 and 2005 financial statements. The calculations were based upon data as of July 1, 2006 and 2005 the latest available actuarial valuation date.

| | Postretirement Benefits | |
|---|---|---|
| | **2006** | **2005** |
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | $ 24,909,469 | $ 19,094,088 |
| Service cost | 1,377,974 | 946,482 |
| Interest cost | 1,229,165 | 1,147,908 |
| Plan participants' contributions | 223,632 | 199,775 |
| Retiree drug subidy receipts | 67,711 | - |
| Special termination benefits | 203,470 | |
| Benefits paid | (1,279,065) | (1,031,539) |
| Actuarial loss | 3,520,988 | 4,552,755 |
| Benefit obligation at end of year | $ 30,253,344 | $ 24,909,469 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | $ - | $ - |
| Retiree drug subidy receipts | 67,711 | |
| Employer contributions | 987,722 | 831,764 |
| Plan participants' contributions | 223,632 | 199,775 |
| Benefits paid | (1,279,065) | (1,031,539) |
| Fair value of plan assets at end of year | $ - | $ - |
| Reconciliation of funded status and total amount recognized | | |
| Funded status | $ (30,253,344) | $ (24,909,469) |
| Unrecognized actuarial loss | 11,402,481 | 8,461,122 |
| Unrecognized prior service cost | (935,829) | (1,247,772) |
| Net amount recognized at year-end | $ (19,786,692) | $ (17,696,119) |
| Components of net periodic benefit cost | | |
| Service cost | $ 1,377,974 | $ 946,482 |
| Interest cost | 1,229,165 | 1,147,908 |
| Amortization of prior service cost | (311,943) | (363,079) |
| Recognized actuarial loss | 579,629 | 251,193 |
| Net periodic benefit cost | 2,874,825 | 1,982,504 |
| Cost of special/contractual termination benefits | 203,470 | |
| Total post retirement benefit cost | $ 3,078,295 | $ 1,982,504 |
| Reconciliation of postretirement benefit cost | | |
| Accrued postretirement benefit obligation at prior year end | $ (17,696,119) | $ (16,545,379) |
| Net periodic postretirement cost | (2,874,825) | (1,982,504) |
| Special termination benefits | (203,470) | - |
| Net benefit payments | 987,722 | 831,764 |
| Accrued postretirement benefit obligation at year end | $ (19,786,692) | $ (17,696,119) |

The estimated future benefit payments (net of retiree contributions) are:

| | |
|---|---|
| First year | $ 915,000 |
| Second year | 983,000 |
| Third year | 1,070,000 |
| Fourth year | 1,183,000 |
| Fifth year | 1,301,000 |
| Next five years | 8,460,000 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. The assumed health care trend rates changed from an initial rate of 10% grading down to 5% over seven years for the year ended June 30, 2005 to an initial rate of 10.5% grading down to 5% over eight years for the year ended June 30, 2006.

A one-percentage-point change in the assumed health care cost trend rates would have the following effects.

| | ***2006*** | ***2005*** |
|---|---|---|
| Effect of 1% increase in health care cost trend rate | | |
| Change in aggregate of current service cost and interest cost | $ 636,469 | $ 455,919 |
| Change in accumulated postretirement benefit obligation, June 30 | 5,117,765 | 4,532,603 |
| Effect of 1% decrease in health care cost trend rate | | |
| Change in aggregate of current service cost and interest cost | (493,531) | (358,348) |
| Change in accumulated postretirement benefit obligation, June 30 | (5,257,030) | (3,660,139) |

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was reflected on December 8, 2003 assuming that the College will continue to provide a prescription drug benefit to retirees in the PPO plan that is at least actuarially equivalent to Medicare Part D and that the College will receive the federal subsidy. The liabilities shown reflect the employer subsidy.

| Weighted - average assumptions used to determine funded status and net cost as of | June 30, 2006 | June 30, 2005 |
|---|---|---|
| Discount rate | 6.00% | 5.00% |
| Expected rate of return on plan assets | N/A | N/A |

## 6. Commitments and Contingencies

### Operating Leases

At June 30, 2006, minimum annual commitments under operating leases for office equipment are as follows:

| | |
|---|---|
| 2007 | $ 91,389 |
| 2008 | 91,389 |
| 2009 | 88,402 |
| 2010 | 12,245 |

### Litigation

In the normal course of business, the College has been named a defendant in various claims. Although there can be no assurance as to the eventual outcome of litigation in which the College has been named, in the opinion of management, such litigation will not, in the aggregate, have a material adverse effect on the College's financial position.

## 7. KEYSOP Program

Effective July 1, 2001, the College implemented the Vassar College Key Employee Share Option Plan, which is a nonqualified stock option plan to provide deferred compensation to certain key employees. Eligibility, vesting periods, and all other terms of the plan were determined by the Personnel and Compensation Committee of the Board of Trustees of Vassar College. In July 2001, the College purchased shares in mutual funds to match the level of options granted. No additional options have been granted since that date. The amounts representing the annual expense for vesting and the cumulative vested liability are deminimus to the financial statements.

As a result of IRS regulations issued in 2002, no further options will be issued from this plan.

**8. Recently Adopted Accounting Pronouncements**
**- Asset Retirement Obligations**

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of Vassar determined that sufficient information was available to reasonably estimate the fair value of known retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in an accounting principle. Specifically, FIN 47 requires the recognition, a cumulative effect, the cumulative accretion and accumulated depreciation for the period from the date the liability was incurred to the date of adoption of this interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted.

Upon adoption of FIN 47 on June 30, 2006, Vassar recognized asset retirement obligations related to asbestos contamination in buildings and tank disposals and recorded a non-cash transition impact of $8,966,359 which is reported as a cumulative effect of a change in accounting principle in the statement of activities and changes in net assets, and a liability for conditional asset retirement obligations of $9,011,962 included in other liabilities.

The following table illustrates the effect on operating income as if this interpretation had been applied for the year ending:

| | ***2006*** | ***2005*** |
|---|---|---|
| Change in net assets from operations, as reported | | |
| Less: Total depreciation and interest accretion costs | $ (1,951,283) | $ (434,489) |
| | (9,212,353) | (414,053) |
| *Proforma change in net assets* | $ (2,385,772) | $ (9,626,406) |

**Vassar College**



*Senior Officers of the College 2005-2006*

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President

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Vice President for Finance and Administration

Catherine E. Baer,
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Gail Goodness,
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