Financial Report of Vassar College

For the fiscal year ending June 30, 2007

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A Message from President Hill

My first year at Vassar has been a great pleasure in so many ways, as I've learned the history and traditions of this exceptional college, met so many within the Vassar family here and around the world, and launched a planning process that will help establish the goals for the College over the next ten years. This process presents extremely important questions: What do we teach and why? Who are our students? What kind of residential community do we want for our students? How do we best steward our magnificent campus? How can we be the most effective neighbor within our local communities? These and related topics are among our priority concerns.

This financial report records one dimension of the health of the College on June 30, 2007. There are, of course, other indicators of a healthy institution: the growth of the applicant pool, the accomplishments of our faculty, the enthusiasm and interest of alumnae/i of all ages for Vassar, the dedication and hard work of our staff, and the growing bonds between town and gown. However, our focus here is on the College's finances and how these resources serve the fundamental mission of Vassar as a liberal arts college. Clearly, we rely on the strong support of alumnae/i and friends, not only with gifts for current spending, but also for capital contributions that help us renew and improve the physical plant and build the endowment. The stewardship of the Trustee Investments Committee preserves and enhances the value of the endowment through a successful long-term investment program.

Our fundamental strength has made it possible for us to restore a principle that long guided Vassar admissions and the distribution of financial aid. The College has returned to a policy of need-blind admission, once again admitting the best qualified applicants without consideration of their financial resources. We had been very close to this standard for many years, without officially embracing it. We do so now to encourage applications from talented students from all income levels. We recognize that the change may introduce greater volatility in the amount of financial aid required each year. However, with the continuing support of alumnae/i and friends of the College, and continuing effective management of the endowment and gift funds for financial aid, we are well-positioned to meet these challenges. Most important to all of us at the College is making a Vassar education possible for students who meet our admissions standards, whether they can afford to pay or not.

The return to need-blind admissions has been an early consensus objective emerging from the long-term planning process. We expect other initiatives to be articulated over the course of the next twelve months to guide the resource allocation in the years ahead. And we expect the habit of long-term planning to become part of our nature – identified through active discussion on campus, with the College's trustees and the larger Vassar community. Effective long-term planning should be the foundation of our stewardship of Vassar's tremendous resources.

Catharine Hill
President

Financial Report to the Trustees of Vassar College

For the fiscal year ending June 30, 2007

From a financial perspective, 2006/07 was a very successful year for Vassar College. Total net assets increased by 12% over the course of the fiscal year, thanks to strong investment returns which more than exceeded an increase in liabilities from additional tax-exempt debt taken on to continue the program of campus renewal. For the twelve month period ended June 30, 2007, total College assets increased by $180.1 million or 16%, driven by an investment return of 19.1%[1] on the pooled endowment investments. The College took advantage of low interest rates in the spring of 2007 to refinance existing debt and added $50 million in borrowed capital. Moody's and Standard & Poor's each reviewed the College's credit rating as part of the issuance process and both agencies reaffirmed their existing ratings for Vassar (Moody's Aa2 and Standard & Poor's AA), with "stable outlooks." The rating agencies looked favorably upon a number of factors, including Vassar's leadership, the success of ongoing efforts in admissions and development, and the College's very strong financial position. We will highlight these and other aspects of the College's financial performance and prospects in the report that follows.

1. Return as reported at the closing date for the audited financial statements in which non-marketable assets are reported as of March 31, 2007; the final one-year return, including the full 12-month returns for non-marketable assets, was 20.5%.

Operations

Total operating revenue[2] of $143.6 million was recorded in 2006/07, with strong growth in each of the three largest categories of revenue – net revenue from student charges, endowment support, and private gifts. Student charges, net of financial aid, provided 57.1% of total operating revenue and continued to be the largest source of annual income for operations. Gross revenue from tuition, fees, room and board of $91.6 million grew 8% over the prior fiscal year, while financial aid increased 5% to $26.8 million, producing net revenue from student enrollment of $82.1 million, an increase of 9% over the previous year.

On campus enrollment of 2,359 full time equivalents was 27 FTE's higher in 2006/07 than the previous year and included 670 new students in the Class of 2010. Applications for the Class of

2. Vassar develops a cash operating budget as a management tool to forecast and monitor cash receipts and outlays for operating expense. The College recorded a budget surplus of $2.3 in its operating budget for 2006/07, reflecting higher than expected enrollment and lower than expected outlays for financial aid. This result should be compared to the $5.5 million loss from operations in the Statement of Activities, which includes the full accounting expense of such non-cash accruals such as depreciation of plant and equipment. The Controller prepares an annual reconciliation of the reports for the Board's Audit Committee.

2010 totaled 6,075, marking the fourth consecutive year in which more than 6,000 students applied for admission to Vassar. Of that total, 1,829 candidates or 30% were admitted, making this one of the most selective years in Vassar's history. The Class of 2010 included students from 535 different high schools in 47 states, the District of Columbia, the Virgin Islands, and 27 foreign countries. Approximately 26% of the student body self-identified as students of color. Forty percent of the student body was male and 60% female. Off-campus enrollment in study abroad programs continued to grow, averaging 158 students each term, compared to an average of 147 in 2005/06.

The comprehensive per person charge increased by 5.9% to $44,160 before financial aid, a lower rate of increase compared to the growth of 6.8% between 2004/05 and 2005/06. Approximately 47% of the student body received grants from the College in 2006/07 based on families' demonstrated financial need, while the percentage receiving any form of need-based aid, including loans and campus employment was 57%.

Institutional grant aid represented 24.6% of gross student revenues, compared to 25.3% of gross revenue from student enrollment in 2005/06. Approximately 33.3% of the institutional financial aid was funded by endowment and gifts restricted for that purpose by donors in 2006/07, with the rest drawn from unrestricted endowment and gifts and other unrestricted sources.

Compensation expenditures for salaries, wages, and benefits for faculty and staff across all programs of the College accounted for 62% of operating expense, or $93.1 million in 2006/07. 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 are 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.

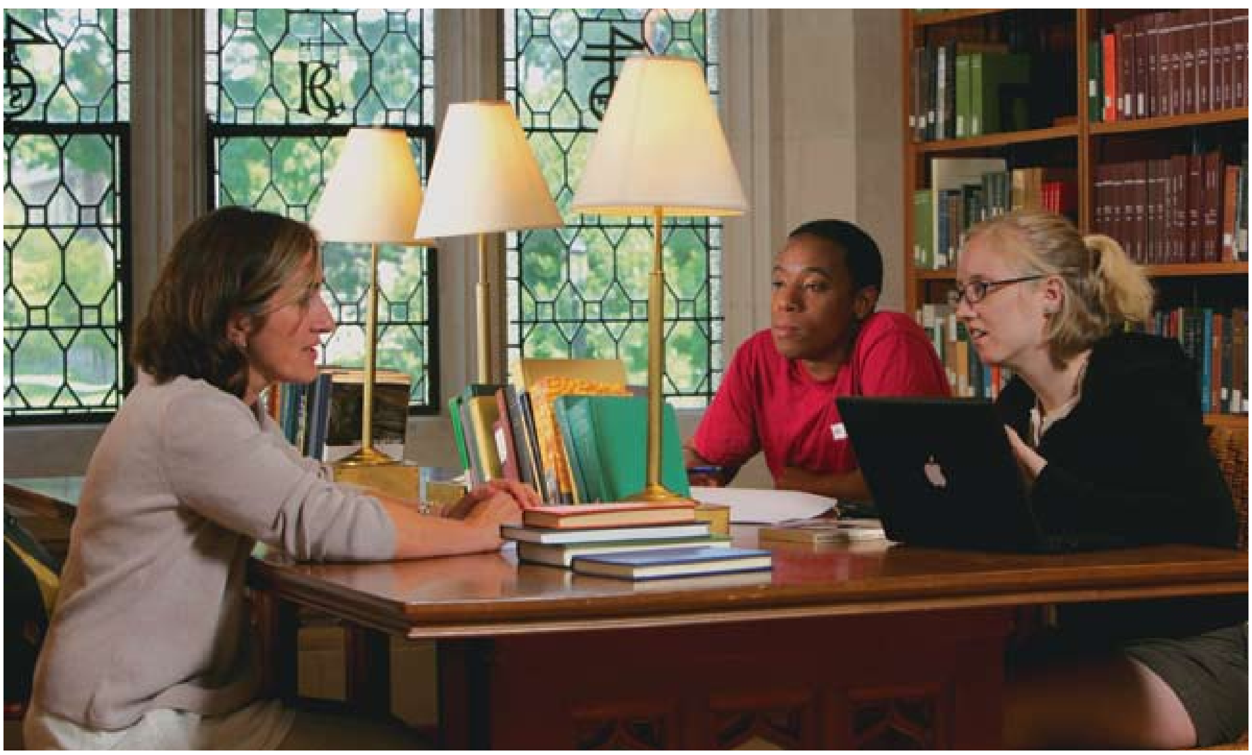
In January of 2007, the College introduced a new approach to cost-sharing for health insurance by faculty and administrators. Previously, the College paid 100% of the cost of single coverage only, with faculty and administrators paying the full additional premium necessary for dependent coverage. This policy meant that the College's subsidy for dependent coverage varied from 36 to 60% of full cost, depending upon the type of coverage selected. Beginning in January, the College introduced premium cost-sharing for single coverage, paying 85% of the single premium and 70% of the cost of plans including dependents. This change increased the cost of health insurance for the College, but instituted the practice of having all faculty and administrators contribute some share of health insurance costs. The new structure is more closely aligned with premium cost-sharing strategies of peer colleges.

Faculty salaries and benefits are compared to data available from a group of twenty peer colleges. The College has a long-term goal of sustaining average compensation at each faculty rank in the top third of this competitive group. The data for total compensation (salary plus benefits) for 2006/07 show that Vassar ranks 9th out of 21 among full professors, 5th out of 21 among associate professors, and 13th out of 21 for assistant professors. It should be noted that the figures do not include a value for Vassar's post-retirement health insurance program, currently an unfunded, defined-benefit program. It has been estimated that eligibility for this program adds approximately $6,000 per person to the compensation of associate and full professors earning eligibility for this form of deferred compensation.

Vassar and the Communication Workers of America concluded negotiations in May for a five-year contract beginning July 1, 2007, through June 30, 2012. In this contract, pay rates will increase by 3.4% in 2007/08, and at 3.25% in each of the following four years. Union representatives were put on notice that the College will seek health care contributions in the next contract negotiation for single coverage as well as dependent coverage for both active and retiree health insurance. The contract included a sunset provision for the College to fund 50% of the salary and benefits of a union official, a longstanding arrangement. The contract also strengthened life insurance, adjusted the job classification structure for administrative simplicity, and provided market-based adjustments for unionized nurses.

Depreciation recorded for plant and equipment accounted for $14.2 million or 9.5% of total operating expense in the 2006/07 Statement of Activities, and increased by almost 12% over the prior year. This growth reflects the College's commitment to renew and replace aging facilities and equipment. A combination of sources have been used to finance the reinvestment in plant and equipment, including the 2007 bond issue, generous donations from alumnae/i and friends of the College, a growing stream of funds from the College's operating budget, and support from the endowment.

In 2006/07, Vassar experienced variation in cost increases by program, with Student Services increasing at 17%, while Auxiliary Enterprises



(food service, the Alumnae House Inn, faculty housing, and the computer store) grew by only 3%. The large increase in Student Services reflects a reclassification of certain departments once associated with Auxiliary Enterprises (related to student residential life), the assignment of higher benefit costs associated with Vassar's tuition remission and tuition grant programs, and the filling of certain positions that had been vacant for part of the prior year. Instruction, Research and Academic Support programs increased in cost by 9%, 8% and 4% respectively. Institutional Support grew by 5% with both 2005/06 and 2006/07 somewhat higher than normal as a result of the presidential search in the first year and the expense associated with inauguration ceremonies in the second.

The Financial Support of Alumnae/i and Friends

The donations of alumnae/i and friends of the College provide support in many ways. Contributions to scholarship funds make the College more affordable to students whose families could not otherwise finance their enrollment at Vassar. Donations also enhance campus facilities and grounds for all students and faculty, and underwrite the College's future through gifts to permanent endowment or deferred gifts to be realized in years ahead.

The College recorded $29.2 million in gifts from private sources for all purposes in 2006/07, down from $50.1 million in 2005/06, when many donors made special gifts to honor retiring President Frances Daly Fergusson. Private gifts and grants for operating purposes increased by 3% over the prior year, reaching $13 million by year end, a positive sign for sustaining the level of support for annual operations. Private gifts and grants for non-operating purposes, however, declined from the record level of $37.5 million in 2005/06, to $16.2 million in 2006/07. Endowment received the lion's share of non-operating gifts at more than $8 million. Another $3.4 million was designated by donors for investment in the physical plant, and more than $2.2 million was donated as deferred gifts to be realized at the end of certain trust arrangements. The College also received artwork and software used in

the sciences valued at $1.7 million and recorded as gifts-in-kind.

The College received a number of new gifts to establish permanent endowment funds in 2006/07. Notable among the new endowed funds established by gifts in 2006/07 are

- The Evelyn B. Metzger Exhibition Fund
- The Isabelle Hyman Professorship Endowment
- The Sally Dayton Clement Scholarship Fund
- The Dennis and Marsha Finn Dammerman Scholarship Fund
- The Mary and Harry Streep Scholarship Fund

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. 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.

On June 30, 2007, the market value of the endowment had risen to $869.1 million, the net result after a total investment return, net of fees, of 19.1% for the fiscal year, spending of $37.7 million, and gifts and additions of $8.95 million. The total return of 19.1% exceeded the weighted benchmark for the endowment by 240 basis points, and finished above the median of the Cambridge Associates client endowments. Over the ten year period ending June 30, 2007, the endowment has posted an average annual total return of 9.7%, net of fees, and outperformed the weighted benchmark by more than 90 basis points. Over this period, the endowment has been invested in a diversified portfolio heavily weighted toward equities, consistent with Vassar's position as a perpetual investor.

The College also acts as trustee for deferred gifts 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 $38 million by year end, and are included in the balance 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 strategies 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 15.3% in the fiscal year ending June 30, 2007, 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 11.7% per year on the deferred gift assets.

In addition to the long-term investments of the endowment and deferred gift assets, the College manages operating cash reserves and funds held in advance of investment in plant. These financial assets are invested primarily to maintain the principal value and earn a return from money market funds. The primary vehicles for these investments are Commonfund's Short Term Investment Fund and

Intermediate Fund, supplemented by lesser positions managed by Merrill Lynch.

The College is also responsible for oversight of the investment of the assets of the defined benefit pension plan, valued at $22.8 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. Total return on the plan assets was 16.5% for the twelve months ending June 30, 2007. The investment and beneficiary payment services for the pension plan are provided by Diversified Investment Advisors. In March of 2007, the College contributed $2.9 million to raise the funded status of the plan, and using the discount rate dictated by generally accepted accounting standards, the pension plan assets exceed the present value of liabilities. The College's goal is to sustain the plan within a 90-100% funding range.

The Campus

Over the last several years, Vassar has been fortunate to have received gifts and pledges for the completion of the Prentiss Fields complex, including significant contributions from Josephine Benz Carpenter '57, Lurita Alexis Doan '79, Christopher English '82 and Janet Albers English '82, Sally Barringer Gordon '82 and Dan Gordon, Albert F. Gordon, John R. Gordon, James K. Kloppenburg '77, Mary Ellen S. Pindyck '68 and Bruce E. Pindyck, Anne Youngclaus Stratton '64 and Frederick P. Stratton, Jr., Missie Rennie Taylor '68, Sue Gotshal Weinberg '51. Thanks to their leadership, planning intensified over the winter and spring of 2007, and work began in earnest during the summer months. The complex will include a new artificial turf field, an outdoor track, soccer fields for competition and practice, and a new baseball field. Teams will be practicing and competing on these fields in the spring of 2008. This phase of the work is expected to cost approximately $8 million, with most of the funding provided by alumnae/i and friends of the College. The completion of Prentiss Fields marks the culmination of more than fifteen years of development for Vassar athletic programs, a period of dramatic growth in varsity teams, athletic staffing, and facilities under the leadership of athletic directors Sharon Beverly (2004 to present) and Andy Jennings (1990 to 2004).

The College continued a multi-year effort to renew campus facilities, including extensive work on the original Terrace Apartments (new siding, roofing, windows and other exterior improvements) and replacement of the slate roof and related masonry work on Blodgett Hall. Josselyn and Noyes Houses continued to receive attention, part of a plan to address needs in these houses through a series of summer projects. Multi-purpose rooms in the Raymond, Davison, Lathrop and Strong Houses were renovated in the summer of 2006, and replacement of the steps and entrances on the Quad side of the four Houses were begun in the summer of 2007. The College also continued campus-wide efforts to restore building envelopes, with work in 2006/07 on Main Building, Thompson Library, Mudd Chemistry, Kendrick, New Hackensack, and other locations around the campus. Basic campus infrastructure continues to receive attention with projects ranging from steam and water line replacements, to new air handlers for the Students' Building, to a new central elevator for Main, to the final phase of work on the replacement of central boilers in the College's steam plant.

Vassar continues to invest significantly in technology to support educational programs and administration, capitalizing more than $1.6 million in 2006/07 in technology purchases and physical improvements to support computing and information services. The College also capitalized library additions valued at $2.2 million in 2006/07.

Taken together, the College capitalized more than $30 million in new equipment, renovations and campus improvements during 2006/07.

Planning

Under the leadership of President Hill, the Vassar community engaged in planning for the College's future, a process that is continuing into the current year. Areas of focus include the curriculum and faculty resources, science facilities, financial aid, diversity and inclusion, the renewal of existing facilities across the campus, student residential life, and community relations. The President has also encouraged governance committees, programs and offices of the College to contribute to the planning process. Early consensus formed around the return to a policy of need-blind admission and financial aid and the importance of endowment and gifts to support the College's scholarship program.

The planning process has called upon the Buildings and Grounds staff to develop longer range plans in three critical areas: science facilities, student residences and general facility and in-

frastructure renewal. After a review of competitive proposals from an outstanding group of architects in the spring of 2007, the College selected the Polshek Partnership to complete the programming and conceptual design of science facilities. Working with architects from the S/L/A/M Collaborative, the College is planning for a major renovation of Davison House beginning in the summer of 2008 and extending through the summer of 2009. This plan relies upon careful oversight of total on-campus enrollment, a higher utilization of existing residential facilities, and the construction of 50 additional beds in new apartments in the Town House complex. A multi-year plan for educational and general facility renewal is also being developed to complement the ongoing renewal of residential houses.

To support the planning process, the financial staff has merged several existing planning models to create an integrated financial planning model encompassing operations, gifts for operating and capital purposes, investments in facilities, investment results and debt. The model is being used to test the sensitivity of results to certain key assumptions, and over the course of the year will also be used to estimate the financial impact of priorities emerging from the planning process.

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, 2007 and 2006

PRICEWATERHOUSECOOPERS

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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, 2007 and 2006, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 8 to the financial statements, Vassar changed the manner in which it accounts for conditional asset retirement obligations in 2006 and the manner in which it accounts for defined benefit pension and other post-retirement plans in 2007.

PricewaterhouseCoopers LLP

Albany, New York
October 2, 2007

Vassar College

Statements of Financial Position
June 30, 2007 and 2006

Assets	**2007**	**2006**
Cash and cash equivalents	$ 17,105,928	$ 14,105,146
Accounts receivable, net		
Student accounts receivable	190,580	374,576
Student loans receivable	2,827,107	2,606,038
Grants receivable	227,451	158,499
Contributions receivable	21,620,526	23,600,409
Accrued investment income receivable	2,244,316	2,500,655
Inventories	721,115	646,036
Prepaid and other assets	4,869,975	9,112,555
Deposits held by trustee	42,126,080	6,001,016
Net retirement asset	1,361,430	-
Investments	929,298,491	798,187,473
Land, buildings and equipment, net	292,887,005	278,074,191
Total assets	$ 1,315,480,004	$ 1,135,366,594
Liabilities		
Accounts payable and accrued expenses	$ 18,555,746	$ 14,279,002
Deferred revenue and students' deposits	4,051,749	4,251,869
Refundable government loan funds	2,852,673	2,872,869
Present value of beneficiary payments	13,491,108	11,839,179
Deposits held for others	4,168,682	4,161,840
Long-term debt	125,455,000	76,950,000
Minimum pension liability	-	3,361,534
Asset retirement obligation	8,947,608	9,011,962
Accrued postretirement benefit obligation	29,007,922	19,786,692
Total liabilities	206,530,488	146,514,947
Net Assets		
Unrestricted	817,153,885	705,793,193
Temporarily restricted	75,466,657	75,251,477
Permanently restricted	216,328,974	207,806,977
Total net assets	1,108,949,516	988,851,647
Total liabilities and net assets	$ 1,315,480,004	$ 1,135,366,594

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

Statements of Activities
Year Ended June 30, 2007 and Comparative Totals for 2006

	2007				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2006 Total**
Operating revenues					
Tuition and fees	$ 91,634,547	$ -	$ -	$ 91,634,547	$ 84,681,366
Room and board	17,275,533			17,275,533	16,397,911
	108,910,080	-	-	108,910,080	101,079,277
Less: Scholarships	(26,776,283)			(26,776,283)	(25,596,302)
Net tuition, fees, room and board	82,133,797	-	-	82,133,797	75,482,975
Investment return					
Interest and dividends	14,321,957	2,369,185		16,691,142	14,929,970
Realized accumulated gains used to meet spending policy	20,999,233			20,999,233	23,462,314
Government grants	1,609,954			1,609,954	1,651,457
Private gifts and grants	11,920,666	1,079,613		13,000,279	12,573,724
Other revenue	4,535,736			4,535,736	3,610,959
Auxiliary enterprises	4,648,916			4,648,916	4,797,246
Net assets released from restrictions	3,716,951	(3,716,951)		-	-
Total operating revenues	143,887,210	(268,153)	-	143,619,057	136,508,645
Operating expenses					
Instruction	65,598,703			65,598,703	60,107,044
Research	3,145,095			3,145,095	2,918,675
Academic support	16,557,442			16,557,442	15,956,354
Student services	15,288,647			15,288,647	13,040,774
Institutional support	30,298,407			30,298,407	28,786,210
Auxiliary enterprises	18,192,773			18,192,773	17,650,871
Total operating expenses	149,081,067	-	-	149,081,067	138,459,928
Change in net assets from operations	(5,193,857)	(268,153)	-	(5,462,010)	(1,951,283)
Non-operating activities					
Private gifts	2,715,871	5,409,700	8,076,927	16,202,498	37,474,029
Interest and dividends		459,872		459,872	541,065
Adjustment for minimum pension liability	4,340,233			4,340,233	2,971,538
Realized and unrealized gains	129,429,474	12,712,909	538,483	142,680,866	81,170,346
Realized gains used to meet spending policy	(20,999,233)			(20,999,233)	(23,462,314)
Terminated deferred gifts	2,302,411	(2,330,850)	28,439	-	
(Loss) gain of disposal of fixed assets	(470,946)			(470,946)	5,874,724
Loss on extinguishment of debt	(3,594,621)			(3,594,621)	
Changes in value of deferred gifts	(16,580)	(1,671,218)	(534,148)	(2,221,946)	(875,060)
Net assets released from restrictions	13,684,784	(14,097,080)	412,296	-	-
Change in net assets from nonoperating activities	127,391,393	483,333	8,521,997	136,396,723	103,694,328
Change in net assets before effect of a change in accounting principle	122,197,536	215,180	8,521,997	130,934,713	101,743,045
Cumulative effect of changes in accounting principles FAS 158 and FIN 47	(10,836,844)			(10,836,844)	(8,966,359)
Increase in net assets after cumulative effect of changes in accounting principles	111,360,692	215,180	8,521,997	120,097,869	92,776,686
Net assets at beginning of year	705,793,193	75,251,477	207,806,977	988,851,647	896,074,961
Net assets at end of year	$ 817,153,885	$ 75,466,657	$ 216,328,974	$ 1,108,949,516	$ 988,851,647

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

Vassar College

Statements of Activities
Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$ 84,681,366	$ -	$ -	$ 84,681,366
Room and board	16,397,911			16,397,911
	101,079,277	-	-	101,079,277
Less: Scholarships	(25,596,302)			(25,596,302)
Net tuition, fees, room and board	75,482,975	-	-	75,482,975
Investment return				
Interest and dividends	12,745,729	2,184,241		14,929,970
Realized accumulated gains used to meet spending policy	23,462,314			23,462,314
Government grants	1,651,457			1,651,457
Private gifts and grants	10,214,111	2,359,613		12,573,724
Other revenue	3,610,959			3,610,959
Auxiliary enterprises	4,797,246			4,797,246
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
Operating expenses				
Instruction	60,107,044			60,107,044
Research	2,918,675			2,918,675
Academic support	15,956,354			15,956,354
Student services	13,040,774			13,040,774
Institutional support	28,786,210			28,786,210
Auxiliary enterprises	17,650,871			17,650,871
Total operating expenses	138,459,928	-	-	138,459,928
Change in net assets from operations	(2,529,964)	450,205	128,476	(1,951,283)
Non-operating activities				
Private gifts	892,508	19,026,704	17,554,817	37,474,029
Interest and dividends		541,065		541,065
Adjustment for minimum pension liability	2,971,538			2,971,538
Realized and unrealized gains	73,926,741	6,961,182	282,423	81,170,346
Realized gains used to meet spending policy	(23,462,314)			(23,462,314)
Terminated deferred gifts	171,415	(353,746)	182,331	-
Gain (loss) of disposal of fixed assets	5,874,724			5,874,724
Changes in value of deferred gifts		(2,449,662)	1,574,602	(875,060)
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
Change in net assets before effect of a change in accounting principle	75,248,942	7,735,953	18,758,150	101,743,045
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 FIN 47	66,282,583	7,735,953	18,758,150	92,776,686
Net assets at beginning of year	639,510,610	67,515,524	189,048,827	896,074,961
Net assets at end of year	$ 705,793,193	$ 75,251,477	$ 207,806,977	$ 988,851

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

Vassar College

Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Change in net assets	$ 120,097,869	$ 92,776,686
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	14,193,627	12,683,636
Accretion on asset retirement obligations	450,598	-
Bad debt expense	(32,000)	73,046
Student loan allowance	(100,546)	5,704
Loss (gain) on disposal of fixed assets	714,813	(5,874,724)
Government loan cancellations	6,298	7,593
Present value of beneficiary payments	1,651,929	170,197
Investment income on life income and annuity agreements	(1,508,826)	(958,856)
Payment to beneficiaries	2,078,844	1,663,719
Liability for post-retirement benefits	2,748,866	2,090,573
Non-operating contributions	(15,833,372)	(23,011,774)
Gifts in kind	(1,711,266)	(892,508)
Realized and unrealized gains on investments	(142,680,867)	(81,170,346)
Cumulative effect of change in accounting principle	10,836,844	8,966,359
Change in pension liability	(9,087,444)	(4,867,157)
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	2,126,927	(14,486,122)
Accrued investment income receivable	256,339	(315,581)
Inventories	(75,079)	(212,610)
Prepaid and other assets	4,242,580	(2,288,010)
Accounts payable and accrued expenses	(1,864,937)	(4,200,974)
Deferred revenue and students' deposits	(200,120)	302,134
Deposits held for others	6,842	(169,530)
Asset retirement obligation	(514,954)	-
Net cash used in operating activities	(14,197,035)	(19,708,545)
Cash flows from investing activities		
Purchases of land, buildings and equipment	(21,868,307)	(25,570,947)
Deposits held by trustee	10,345,612	(179,345)
Proceeds from sale of fixed assets	-	7,718,635
Proceeds from student loans collections	595,736	803,477
Student loans issued	(722,557)	(790,244)
Purchases of investments	(528,208,588)	(542,089,606)
Proceeds from sales and maturities of investments	539,778,438	553,205,268
Net cash used in investing activities	(79,666)	(6,902,762)
Cash flows from financing activities		
Contribution for investment in endowment	6,265,444	14,320,184
Contribution for investment in long-lived assets	7,333,577	6,981,731
Contribution for investment in life income agreements	2,234,352	1,709,860
Investment income on life income and annuity agreements	1,508,826	958,856
Payments to beneficiaries	(2,078,844)	(1,663,719)
(Decrease) increase in refundable government loan funds	(20,196)	35,486
Proceeds from the issuance of long-term debt	3,359,324	-
Payments on long-term debt	(1,325,000)	(1,250,000)
Net cash provided by financing activities	17,277,483	21,092,398
Net increase (decrease) in cash and cash equivalents	3,000,782	(5,518,909)
Cash and cash equivalents, beginning of year	14,105,146	19,624,055
Cash and cash equivalents, end of year	$ 17,105,928	$ 14,105,146
Supplemental data		
Interest paid	$ 3,826,999	$ 4,108,994
Noncash investing activities		
Gifts in kind	$ 1,711,266	$ 892,508
Purchases of capital assets included in account payable	$ 6,141,681	$ 2,601,920
Deposits held by trustee	$ (46,470,676)	$ -
Noncash financing activities		
Issuance of long-term debt	$ 125,455,000	$ -
Extinguishment of long-term debt	$ (75,625,000)	$ -

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, loss on defeasance of debt, 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 2007 and 2006, 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, 2007 and 2006, student accounts receivable are net of an allowance for doubtful accounts of $48,000 and $80,000, and student loans receivable are net of an allowance for doubtful accounts of $372,000 and $472,000 for 2007 and 2006, 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 collectible as follows:

	2007	2006
Within one year	$ 4,817,353	$ 2,239,306
One to five years	17,252,424	24,035,439
Over five years	2,999,799	1,254,900
	25,069,576	27,529,645
Less: Present value discount	(2,964,871)	(3,395,258)
Allowance for uncollectible pledges	(484,179)	(533,978)
	$ 21,620,526	$ 23,600,409

Conditional pledges and bequest intentions totaling approximately $39,401,000 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 and recorded at their fair value when received. The value of these assets included in investments at June 30, 2007 and 2006 was $37,984,427 and $35,367,003, respectively. 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. Discount rates range from 3.60% to 13.92% as of the date of the gift. 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.

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 Committee on Investments 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 2007, the Board approved supplemental spending in the amount of $1,870,000 for plant renewal, $750,000 for interest payments, and $750,000 for additional funding for campaign expenses. For fiscal years 2007 and 2006, the following information is pertinent to the College's endowment and similar funds at June 30.

	2007	2006
Fair value of investments	$ 869,122,000	$ 741,655,000
Income for operations	37,690,375	38,392,284
Number of units	9,838,515	9,770,147
Market value per unit	86.87	74.44
Spending rate per unit	3.45	3.45
Yield per unit	1.59	1.42
Realized gains used to meet spending policy	20,999,233	23,462,314
Investment return	19.1%	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	
	2007	2006
Short-term investments (a)	$ 25,545,309	$ 64,968,193
Fixed income-bonds	114,130,862	113,213,424
Marketable real estate (b)	5,285,899	5,585,263
Equity investments:		
U.S. Stocks	311,921,531	257,862,330
International Stocks	190,942,199	125,574,262
Hedge funds (c)	147,126,298	105,715,943
Real estate, oil and gas partnerships (d)	48,504,211	51,530,585
Venture capital/private placements (e)	68,617,250	57,918,602
Institutional mutual fund (f)	14,892,466	13,599,011
Balanced accounts (g)	2,332,466	2,071,330
Other	-	148,530
Total	$ 929,298,491	$ 798,187,473

(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 $35,221,000 for real estate, oil, and gas investments over a 5 year period. The majority of the investment valuation in 2007 and 2006 is based upon March 31, 2007 and March 31, 2006 valuation estimates from the general partner (Note 1), respectively.

(e) The College is committed to advance an additional $55,870,000 for venture capital and private placement investments over a 5 year period. The investment valuation in 2007 and 2006 is based upon March 31, 2007 and March 31, 2006 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.

(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:

	2007	2006
Dividends and interest available for spending	$ 16,691,142	$ 14,929,970
Realized gains	86,016,388	89,235,541
Unrealized gains (losses)	56,664,478	(8,065,195)
Total return	159,372,008	96,100,316
Less: Amounts allocated for spending	(20,999,233)	(23,462,314)
Net realized, unrealized gains and interest earnings	$ 138,372,775	$ 72,638,002

The College has reviewed unrealized losses on its investments and has concluded that none represent other than temporary losses from market activities.

Long-Term Debt

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

	2007	2006
Industrial Development Agency of Dutchess County maturity in 2041 with interest rate of 5.35%. Principal repayments begin in 2031.	$ -	$ 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
Dormitory Authority of the State of New York Revenue Bonds, Series 2007, maturing in 2046, with interest of 4% to 5%. Bonds are general unsecured obligations of the College.	125,455,000	-
	$ 125,455,000	$ 76,950,000

Principal maturities on all long-term debt are as follows as of June 30, 2007:

2008	$ -
2009	1,460,000
2010	1,515,000
2011	1,575,000
2012	1,645,000
Thereafter	119,260,000
	$ 125,455,000

Interest expense for the years ended June 30, 2007 and 2006 was $4,999,186 and $4,108,994, respectively.

Management believes that the fair value of the College's long-term debt at June 30, 2007 and 2006 approximates $121,477,000 and $78,089,000 based on prevailing rates available.

On April 18, 2007, the College entered into an agreement with the Dormitory Authority of the State of New York, which provided for the issuance of $125,455,000 Vassar College Revenue Bonds, Series 2007. A portion of the proceeds, were deposited into trustee escrow accounts to defease the Vassar College Revenue Series 1995 and 2001 Bonds. A portion was received by the College to pay certain costs associated with the issuance and the remaining amount was deposited into a trustee escrow account to be used for capital renovations and improvements to various facilities throughout the College's campus. The funds are invested in United States Treasury obligations, which will provide for future payments of all interest, principal and call premiums on the defeased bonds. In order to meet these future obligations, the amount deposited in escrow was greater than the par value of the defeased bonds. Neither the assets of the trustee escrow account nor the outstanding defeased issues are included in the accompanying statement of financial position. The decision to defease both prior year bonds was based on current market conditions and the future savings over the life of the bonds for the College.

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

	2007	2006
Dormitory Authority of the State of New York:		
Series 1995		
Debt Reserve Fund	$ -	$ 1,360,567
Building and Equipment Reserve	-	1,444,125
Debt Service Reserve	-	2,106,551
Dutchess County Industrial Development Agency:		
Series 2001		
Construction Fund	-	1,089,773
Dormitory Authority of the State of New York:		
Series 2007		
Construction Fund	40,722,502	-
Debt Service Reserve	1,188,718	-
Debt Issuance Reserve	214,860	-
	$ 42,126,080	$ 6,001,016

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, 2007 and 2006. As of June 30, 2007 and 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:

	2007	2006
Land	$ 2,007,427	$ 2,007,427
Land improvements	8,977,551	8,745,503
Buildings and improvements	307,269,582	291,946,095
Equipment (including personal computers)	61,383,406	58,066,458
Library books	38,152,582	35,932,343
Art works and collectibles	41,791,346	41,368,238
Construction in progress	7,852,260	1,346,397
	467,434,154	439,412,461
Less: Accumulated depreciation	(174,547,149)	(161,338,270)
	$ 292,887,005	$ 278,074,191

Depreciation expense for the years ended June 30, 2007 and 2006 was $14,193,627 and $12,683,636, respectively.

The College is committed to spend $13,612,000 in construction projects in fiscal year 2008.

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, 2007 and 2006 totaled approximately $6,201,500 and 5,999,252, 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 contribution for the years ended June 30, 2007 and 2006 was $2,900,000 and $3,950,000, respectively. Based on the current funding level, the College does not anticipate making a contribution in the next fiscal year.

The following table sets forth information related to the College's defined benefit pension plan at June 30:

	Pension Benefits	
	2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	$ 21,430,370	$ 21,899,111
Service cost	686,488	700,096
Interest cost	1,251,635	1,113,716
Plan amendment	-	1,117,208
Benefits paid	(1,073,481)	(1,005,396)
Actuarial gain	(785,237)	(2,394,365)
Benefit obligation at end of year	$ 21,509,775	$ 21,430,370

The accumulated benefit obligation for defined benefit pension plan was $21,509,775 and $21,430,370 as of June 30, 2007 and 2006, respectively.

	2007	2006
Change in plan assets		
Fair value of plan assets at beginning of year	$ 18,068,836	$ 13,670,420
Actual return on plan assets	2,975,850	1,453,812
Employer contributions	2,900,000	3,950,000
Benefits paid	(1,073,481)	(1,005,396)
Fair value of plan assets at end of year	$ 22,871,205	$ 18,068,836
Reconciliation of funded status and total amount recognized		
Funded status	$ 1,361,430	$ (3,361,534)
Unrecognized actuarial loss	N/A	4,340,233
Unrecognized prior service cost	N/A	2,647,390
Net amount recognized at year-end	$ 1,361,430	$ 3,626,089
Additional minimum pension liability	N/A	(6,987,623)
Overfunded (accrued) benefit cost	N/A	$ (3,361,534)
Amounts recognized in statement of financial position consist of:		
Overfunded (accrued) retirement asset	$ 1,361,430	$ (3,361,534)
Intangible asset (included in prepaid expenses)	N/A	2,647,390
Adjustment for minimum pension liability (included in unrestricted net assets)	N/A	4,340,233
Net amount recognized	$ 1,361,430	$ 3,626,089
Amounts recognized in unrestricted net assets:		
Net prior service costs	$ (2,369,291)	N/A
Net actuarial (loss)	(1,995,189)	N/A
Cumulative reduction in unrestricted net assets	$ (4,364,480)	$ (4,340,233)

The estimated net prior service costs and net actuarial loss for the defined benefit pension plan that will be amortized into net periodic benefit costs over the next fiscal year is $278,099 and $0, respectively.

	Pension Benefits	
	2007	2006
Components of net periodic pension cost		
Service cost	$ 686,488	$ 700,096
Interest cost	1,251,635	1,113,716
Expected return on plan assets	(1,569,586)	(1,211,612)
Amortization of prior service cost	278,099	278,099
Recognized actuarial loss	153,543	334,973
Net periodic pension cost	$ 800,179	$ 1,215,272
Changes recorded in non-operating activities		
Increase in unrestricted net assets	$ 4,340,233	$ 2,971,538
Impact of FAS 158	$ (4,364,480)	N/A

The weighted average rates forming the basis of net periodic benefit and amounts recognized in the College's statement of financial position at June 30:

	2007	2006
Benefit Obligations		
Discount rate	6.25%	6.00%
Rate of compensation increase	N/A	N/A
Net periodic benefit cost		
Discount rate	6.00%	5.00%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%

The discount rate as of June 30, 2006 was used to estimate the benefit obligation as of that date, and the annual expense for the 2006/07 fiscal year. The discount rate as of June 30, 2007, was used to estimate the benefit obligation as of that date, and will be used to estimate the annual expense for the 2007/08 fiscal year.

The expected long-term rate of return assumption represents the expected average rate of return or earnings on funds invested or to be invested to provide for the benefits included in the benefit obligations. This assumption is based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plan, historical plan return data, plan expenses and the potential to out perform market index returns.

The expected benefit payments from the Plan are as follows:

June 30, 2008	$ 1,176,700
June 30, 2009	1,208,500
June 30, 2010	1,260,900
June 30, 2011	1,308,200
June 30, 2012	1,375,200
Succeeding 5 years	7,732,900

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 in order to provide for the benefits included in the benefit obligation. 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:

		Actual June 30,	
Asset Mix	**2007 Target**	**2007**	**2006**
Equities	60%	66%	65%
Fixed income	40	23	23
Real estate	-	9	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 employees' service with the College. The following tables represent the post retirement plan's funded status and amounts recognized in the 2007 and 2006 financial statements. The calculations were based upon data as of July 1, 2007 and 2006 the latest available actuarial valuation date. The post retirement plan's benefits are funded on a pay-as-you-go basis. The College funds on a cash basis, therefore, the College's contributions in the next fiscal year are anticipated to be $992,000.

In January 2007, the College made several changes to the post retirement plan, including changes to the in-network co-payment, out-of-network deductible and prescription drug co-payment. These changes resulted in a decrease of benefit obligation of $3,090,020. In addition, when the liabilities were remeasured to reflect the plan changes effective January 2007 the discount rate was changed from 6% at June 30, 2006 to 5.75% at January 1, 2007 and then subsequently changed to 6.25% at June 30, 2007.

	Postretirement Benefits	
	2007	2006
Change in obligation at beginning of year		
Benefit obligation at beginning of year	$ 30,253,344	$ 24,909,469
Service cost	1,584,262	1,377,974
Interest cost	1,710,418	1,229,165
Plan participants' contributions	163,406	223,632
Plan amendment	(3,090,020)	
Retiree drug subsidy receipts	161,846	67,711
Special termination benefits	92,619	203,470
Benefits paid	(1,221,771)	(1,279,065)
Actuarial (gain) loss	(646,182)	3,520,988
Benefit obligation at end of year	$ 29,007,922	$ 30,253,344
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Retiree drug subsidy receipts	161,846	67,711
Employer contributions	896,519	987,722
Plan participants' contributions	163,406	223,632
Benefits paid	(1,221,771)	(1,279,065)
Fair value of plan assets at end of year	$ -	$ -
Reconciliation of funded status and total amount recognized		
Funded status	$ (29,007,922)	$ (30,253,344)
Unrecognized actuarial loss	N/A	11,402,481
Unrecognized prior service cost	N/A	(935,829)
Net amount recognized at year-end	$ (29,007,922)	$ (19,786,692)
Amounts recognized in statement of financial position consist of:		
Accrued postretirement benefit obligation	$ (29,007,922)	$ (19,786,692)
Amounts recognized in unrestricted net assets		
Net prior service credit	$ 3,438,011	N/A
Net actuarial (loss)	(9,910,375)	N/A
Cumulative change in unrestricted net assets	$ (6,472,364)	N/A

The estimated net prior service credit and net actuarial loss for the post retirement plan that will be amortized into net periodic benefit costs over the next fiscal year is $863,732 and $661,281, respectively.

	Postretirement Benefits	
	2007	2006
Components of net periodic benefit cost		
Service cost	$ 1,584,262	$ 1,377,974
Interest cost	1,710,418	1,229,165
Amortization of prior service cost	(587,838)	(311,943)
Recognized actuarial loss	845,924	579,629
Net periodic benefit cost	3,552,766	2,874,825
Cost of special/contractual termination benefits	92,619	203,470
Total post retirement benefit cost	$ 3,645,385	$ 3,078,295
Changes recorded in non-operating activities		
Impact of FAS 158	(6,472,364)	N/A

The estimated future benefit payments are as follows:

	Gross	Medicare Subsidy	Net
June 30, 2008	$ 1,181,000	$ 189,000	$ 992,000
June 30, 2009	1,292,000	212,000	1,080,000
June 30, 2010	1,406,000	234,000	1,172,000
June 30, 2011	1,533,000	258,000	1,275,000
June 30, 2012	1,650,000	280,000	1,370,000
Succeeding 5 years	10,460,000	1,782,000	8,678,000

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 10.5% grading down to 5% over eight years for the year ended June 30, 2006 to an initial rate of 9.5% grading down to 5% over seven years for the year ended June 30, 2007.

A one-percentage-point change in the assumed health care cost trend rates would have the following effects at June 30:

	2007	2006
Effect of 1% increase in health care cost trend rate		
Change in aggregate of current service cost and interest cost	$ 692,014	$ 636,469
Change in accumulated postretirement benefit obligation	4,797,013	5,117,765
Effect of 1% decrease in health care cost trend rate		
Change in aggregate of current service cost and interest cost	(546,314)	(493,531)
Change in accumulated postretirement benefit obligation	(3,928,373)	(5,257,030)

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.

The weighted average rates forming the basis of net periodic benefit cost and amounts recognized in the College's statement of financial position at June 30 were:

	2007	2006
Benefit obligations		
Discount rate	6.25%	6.00%
Expected rate of return on plan assets	N/A	N/A
Net periodic benefit cost		
Discount rate	5.75%	5.00%

6. Commitments and Contingencies

Operating Leases

At June 30, 2007, minimum annual commitments under operating leases for office equipment are as follows:

2008	$ 90,361
2009	87,375
2010	63,813
2011	31,044

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, A*ccounting 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 was 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 was included in other liabilities. In fiscal year 2007, $450,598 of accretion expense and $5,347 of depreciation expense was recorded.

The following table illustrates the effect on operating income if this interpretation had been applied for the year ended June 30, 2006:

Change in net assets from operations, as reported	$ (1,951,283)
Less: Total depreciation and interest accretion costs	(434,489)
Proforma change in net assets	$ (2,385,772)

Employee Benefits – Pension Plan and Post Retirement Health Insurance

In September 2006, the FASB issued the Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 requires employers that sponsor defined benefit plans to recognize the funded status of a benefit plan, recognize the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position, and disclose in notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year.

The College adopted the recognition provisions of FAS 158 for its fiscal year ending June 30, 2007 and recognized a charge of $10,836,844 as the cumulative effect of a change in accounting principle on the statement of activities and changes in net assets. See Notes 4 and 5 for the effect of the adoption.

Vassar College

Senior Officers of the College 2006-2007

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President

Ronald A. Sharp,
Dean of the Faculty

Judy Faye Jackson,
Dean of the College

Elizabeth A. S. Eismeier,
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and Administration

Catherine E. Baer,
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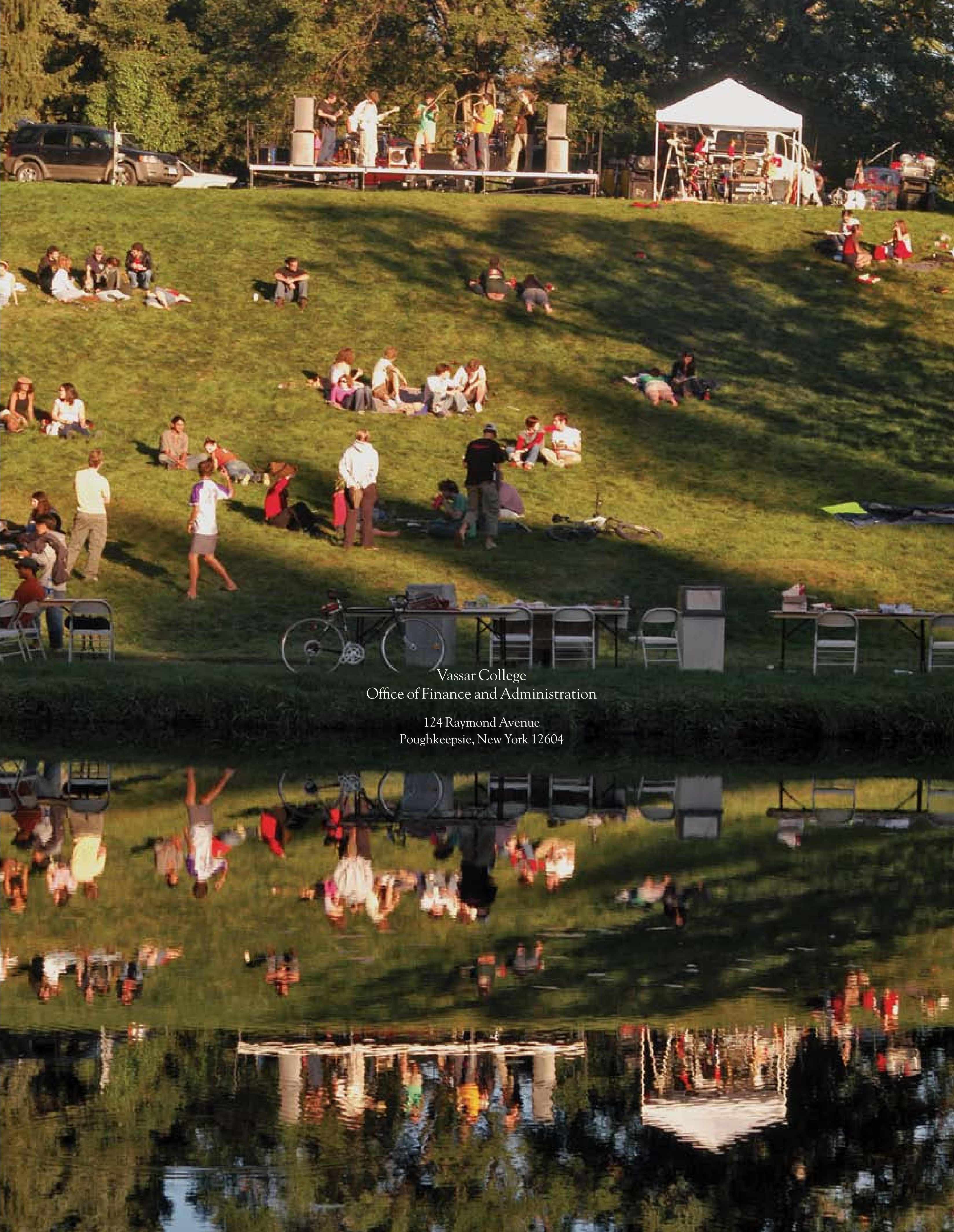

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