

St. Lawrence University

Consolidated Financial Statements

June 30, 2003 and 2002

Report of Independent Auditors

To the Board of Trustees
St. Lawrence University
Canton, New York

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of St. Lawrence University at June 30, 2003 and 2002, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University'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.

PricewaterhouseCoopers LLP

August 15, 2003

St. Lawrence University
Consolidated Statements of Financial Position
June 30, 2003 and 2002

	2003	2002
Assets		
Cash and cash equivalents	\$ 4,999,067	\$ 3,296,293
Accounts receivable, net	2,031,251	1,326,143
Accrued investment income	549,892	664,322
Inventories	1,681,239	1,606,330
Prepaid expenses and other assets	3,482,814	3,607,835
Contributions receivable	23,720,525	20,316,382
Loans receivable, net	3,048,341	3,027,708
Investments, at fair value	187,791,040	207,684,197
Funds held for deferred giving	10,583,911	9,368,394
Land, building and equipment, net	114,780,287	99,901,914
Total assets	<u>\$ 352,668,367</u>	<u>\$ 350,799,518</u>
Liabilities		
Accounts payable and accrued expenses	\$ 11,279,798	\$ 7,333,974
Deposits and deferred revenues	2,324,079	2,600,258
Annuities and deferred giving obligations	5,364,592	4,583,141
Federal student loan funds	3,177,531	3,110,725
Accrued postretirement benefits	7,776,782	6,804,432
Debt obligations	87,387,146	87,287,812
Total liabilities	<u>117,309,928</u>	<u>111,720,342</u>
Net assets		
Unrestricted	132,308,862	143,218,574
Temporarily restricted	29,372,408	25,341,574
Permanently restricted	73,677,169	70,519,028
Total net assets	<u>235,358,439</u>	<u>239,079,176</u>
Total liabilities and net assets	<u>\$ 352,668,367</u>	<u>\$ 350,799,518</u>

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

St. Lawrence University
Consolidated Statements of Activities
Years Ended June 30, 2003 and 2002

	2003			Total	2002 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating activities					
Tuition and fees	\$ 58,655,105	\$ -	\$ -	\$ 58,655,105	\$ 50,549,817
Room and board revenues	14,432,554	-	-	14,432,554	13,338,753
Less:					
Student financial aid-institutional	(27,194,708)	-	-	(27,194,708)	(24,533,324)
Student financial aid-government SEOG	(492,588)	-	-	(492,588)	(572,659)
Net student revenues	45,400,363	-	-	45,400,363	38,782,587
Auxiliary enterprises	7,767,569	-	-	7,767,569	7,218,803
Government grants	2,344,341	-	-	2,344,341	2,446,374
Private gifts-annual	5,549,624	4,771,555	-	10,321,179	9,469,128
Private gifts-nonrecurring	781,420	3,460,083	-	4,241,503	8,990,767
Endowment spending formula income	10,489,362	436,294	-	10,925,656	10,978,706
Investment income	817,349	13,286	-	830,635	1,189,668
Other	1,065,449	-	-	1,065,449	866,808
Restrictions released	4,393,387	(4,393,387)	-	-	-
Total operating revenues	<u>78,608,864</u>	<u>4,287,831</u>	<u>-</u>	<u>82,896,695</u>	<u>79,942,841</u>
Instruction	27,362,165	-	-	27,362,165	24,341,507
Research	462,843	-	-	462,843	234,501
Public service	2,068,180	-	-	2,068,180	1,870,471
Academic support	7,754,844	-	-	7,754,844	7,115,306
Student services	12,669,401	-	-	12,669,401	11,559,155
Institutional support	11,999,558	-	-	11,999,558	11,403,281
Auxiliary enterprises	19,876,125	-	-	19,876,125	17,784,614
Total operating expenses	<u>82,193,116</u>	<u>-</u>	<u>-</u>	<u>82,193,116</u>	<u>74,308,835</u>
Net operating activities	<u>(3,584,252)</u>	<u>4,287,831</u>	<u>-</u>	<u>703,579</u>	<u>5,634,006</u>
Nonoperating activities					
Total investment return, net of spending formula	(6,690,617)	43,288	(318,978)	(6,966,307)	(31,793,024)
Contributions for long-term investment	-	-	3,748,999	3,748,999	5,797,760
Deferred giving net activity	-	(286,842)	(286,823)	(573,665)	(75,545)
Other	(149,704)	(13,443)	14,943	(148,204)	(578,405)
Net nonoperating activities	<u>(6,840,321)</u>	<u>(256,997)</u>	<u>3,158,141</u>	<u>(3,939,177)</u>	<u>(26,649,214)</u>
(Decrease) increase in net assets, before minimum pension liability adjustment	(10,424,573)	4,030,834	3,158,141	(3,235,598)	(21,015,208)
Minimum pension liability	<u>(485,139)</u>	<u>-</u>	<u>-</u>	<u>(485,139)</u>	<u>(762,166)</u>
(Decrease) increase in net assets	(10,909,712)	4,030,834	3,158,141	(3,720,737)	(21,777,374)
Net assets at beginning of year	<u>143,218,574</u>	<u>25,341,574</u>	<u>70,519,028</u>	<u>239,079,176</u>	<u>260,856,550</u>
Net assets at end of year	<u>\$ 132,308,862</u>	<u>\$ 29,372,408</u>	<u>\$ 73,677,169</u>	<u>\$ 235,358,439</u>	<u>\$ 239,079,176</u>

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

St. Lawrence University
Consolidated Statement of Activities
Year Ended June 30, 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating activities				
Tuition and fees	\$ 50,549,817	\$ -	\$ -	\$ 50,549,817
Room and board revenues	13,338,753	-	-	13,338,753
Less:				
Student financial aid-institutional	(24,533,324)	-	-	(24,533,324)
Student financial aid-government SEOG	(572,659)	-	-	(572,659)
Net student revenues	38,782,587	-	-	38,782,587
Auxiliary enterprises	7,218,803	-	-	7,218,803
Government grants	2,446,374	-	-	2,446,374
Private gifts-annual	5,119,537	4,349,591	-	9,469,128
Private gifts-nonrecurring	525,423	8,465,344	-	8,990,767
Endowment spending formula income	10,441,140	537,566	-	10,978,706
Investment income	1,154,315	35,353	-	1,189,668
Other	866,808	-	-	866,808
Restrictions released	4,018,054	(4,018,054)	-	-
Total operating revenues	<u>70,573,041</u>	<u>9,369,800</u>	<u>-</u>	<u>79,942,841</u>
Instruction	24,341,507	-	-	24,341,507
Research	234,501	-	-	234,501
Public service	1,870,471	-	-	1,870,471
Academic support	7,115,306	-	-	7,115,306
Student services	11,559,155	-	-	11,559,155
Institutional support	11,403,281	-	-	11,403,281
Auxiliary enterprises	17,784,614	-	-	17,784,614
Total operating expenses	<u>74,308,835</u>	<u>-</u>	<u>-</u>	<u>74,308,835</u>
Net operating activities	<u>(3,735,794)</u>	<u>9,369,800</u>	<u>-</u>	<u>5,634,006</u>
Nonoperating activities				
Total investment return, net of spending formula	(31,571,353)	(145,455)	(76,216)	(31,793,024)
Contributions for long-term investment	-	-	5,797,760	5,797,760
Deferred giving net activity	-	(126,605)	51,060	(75,545)
Other	(578,405)	71,728	(71,728)	(578,405)
Net nonoperating activities	<u>(32,149,758)</u>	<u>(200,332)</u>	<u>5,700,876</u>	<u>(26,649,214)</u>
(Decrease) increase in net assets, before minimum pension liability adjustment	(35,885,552)	9,169,468	5,700,876	(21,015,208)
Minimum pension liability	(762,166)	-	-	(762,166)
(Decrease) increase in net assets	(36,647,718)	9,169,468	5,700,876	(21,777,374)
Net assets at beginning of year	<u>179,866,292</u>	<u>16,172,106</u>	<u>64,818,152</u>	<u>260,856,550</u>
Net assets at end of year	<u>\$ 143,218,574</u>	<u>\$ 25,341,574</u>	<u>\$ 70,519,028</u>	<u>\$ 239,079,176</u>

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

St. Lawrence University
Consolidated Statements of Cash Flows
Years Ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities		
Change in net assets	\$ (3,720,737)	\$ (21,777,374)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	8,136,141	7,279,280
Realized and unrealized (gains) losses on investments	(857,691)	23,439,878
Capital contributions	(4,670,318)	(6,407,636)
Change in value of deferred gifts	71,294	623,847
Minimum pension liability adjustment	485,139	762,166
Changes in assets and liabilities that provide cash		
Accounts receivable	(46,352)	685,531
Accrued investment income	114,430	265,364
Inventories	(74,909)	15,958
Prepaid expenses and other assets	28,257	(310,970)
Contributions receivable	(3,345,452)	(8,896,425)
Accounts payable and accrued expenses	2,340,508	(1,255,612)
Deposits and deferred revenues	(276,179)	393,048
Postretirement benefits	487,211	47,436
Net cash used in operating activities	<u>(1,328,658)</u>	<u>(5,135,509)</u>
Cash flows from investing activities		
Purchases of plant, books and equipment, net	(20,119,638)	(9,978,366)
Proceeds from student loan collections	846,187	612,313
Student loans issued	(866,820)	(695,662)
Purchase of investments	(91,703,917)	(204,349,167)
Proceeds from sales and maturities of investments	<u>112,454,765</u>	<u>170,848,601</u>
Net cash provided by (used in) investing activities	<u>610,577</u>	<u>(43,562,281)</u>
Cash flows from financing activities		
Proceeds from bonds issued	-	41,400,000
Increase in deferred financing fees	-	(1,318,888)
Contributions for long-term investment	3,235,239	4,499,641
Contributions for long-lived assets	421,828	468,987
Increase in federal student loan funds	66,806	80,961
Payments on long-term debt	<u>(1,303,018)</u>	<u>(1,136,683)</u>
Net cash provided by financing activities	<u>2,420,855</u>	<u>43,994,018</u>
Net increase (decrease) in cash and cash equivalents	1,702,774	(4,703,772)
Cash and cash equivalents		
Beginning of year	<u>3,296,293</u>	<u>8,000,065</u>
End of year	<u>\$ 4,999,067</u>	<u>\$ 3,296,293</u>
Supplemental data		
Interest expense paid, net of interest income capitalized		
\$262,729 and \$0 in 2003 and 2002, respectively	\$ 2,271,509	\$ 2,311,028
Gifts in kind	449,200	64,363
Non-cash financing activities		
Construction related payables	1,605,316	594,753
Equipment acquired under a capital lease agreement	743,596	1,037,298

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

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2003 and 2002

1. Summary of Significant Accounting Policies

St. Lawrence University (the "University") was chartered by the Legislature of the State of New York in 1856 and is the oldest continuously coeducational institution of higher learning in the state. The University is committed to excellence in undergraduate liberal arts studies and graduate studies in education. The University's enrollment is approximately 2,000 full-time students, with nearly an equal number of men and women from most U. S. states and from nearly two dozen other countries.

Basis of Presentation

The financial statements of the University have been prepared on the accrual basis of accounting and include the accounts of the University Inn Corporation ("UIC"), a wholly-owned subsidiary. All material transactions between the University and its subsidiary have been eliminated. In accordance with SFAS 117, "Financial Statements of Not-for-Profit Organizations", net assets having similar characteristics have been classified in the following categories:

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.

Temporarily Restricted - Net assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations.

Permanently Restricted - Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets to support program activities.

Subsidiary

UIC operates a hotel and restaurant facility in Canton, New York. The following activity of UIC is included in the Statements of Activities as Revenues and Expenses of Auxiliary Enterprises for the years ended June 30:

	2003	2002
Total UIC revenues	\$ 2,528,695	\$ 2,354,681
Total UIC expenses	<u>(2,509,097)</u>	<u>(2,317,361)</u>
Net income	<u>\$ 19,598</u>	<u>\$ 37,320</u>

Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are reported at cost which approximates fair value.

Inventories

Inventories are recorded at the lower of cost (first-in, first-out method) or market.

St. Lawrence University

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Contributions

The University has recorded contributions, including unconditional promises to give, as revenues when donors' commitments are received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Unconditional promises to give are recognized at the estimated net present value, net of an allowance for uncollectible amounts, and are classified as either permanently restricted or temporarily restricted. Gifts whose restrictions are met in the same fiscal year as their receipt are reported as unrestricted contributions.

Costs incurred by the University in obtaining donor contributions were approximately \$2,632,000 and \$2,369,000 at June 30, 2003 and 2002, respectively.

Student Accounts and Loans Receivable

Student account and loan receivables at June 30, 2003 and 2002 are reported net of provisions for doubtful accounts of approximately \$406,000 and \$421,000, respectively. The provision is intended to provide for accounts, both in repayment status and not yet in repayment status (borrowers still in school or in the grace period following graduation), that may not be collected.

Investments

The University accounts for its investments at fair value. The fair value of publicly traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable. Limited partnership interest valuations are recorded primarily at fair value as determined by the general partners and approved by a valuation committee of the partnership based upon judgments which include, among other factors, restrictions affecting marketability, operating results, financial condition of the issuers and the price of the most recent financing transactions. Private equities and certain other nonmarketable securities are valued using current information obtained from the general partner or investment manager for the respective funds. Investment return is reported in the statement of activities and the notes to the financial statements net of management and custodial fees of approximately \$654,000 and \$786,000 for 2003 and 2002, respectively.

Annuities and Deferred Giving Arrangements

The University's deferred giving arrangements consist primarily of gift annuity, pooled life income and charitable remainder trusts. Deferred giving assets are managed by external investment managers. University management monitors investment performance achieved by the respective investment managers. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets and changes in the estimated present value of future cash outflows and other changes in the estimates of future benefits. The annuities and deferred giving obligations represent the net present value of future cash outflows over the beneficiary's life expectancy as required by the deferred gift agreements. Discount rates of 5.6% to 11.6% are used to calculate the net present value of the obligations.

St. Lawrence University
Notes to Consolidated Financial Statements
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Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost at the date of acquisition or, in the case of gifts, at fair value at the date of donation, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (50 years), building and land improvements (10 -20 years) and equipment and books (3-10 years). Depreciation and operation and maintenance expense is included in the statement of activities and allocated to functional classifications based on facility space used within each functional category. Interest expense is capitalized during periods of construction.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported period. Actual results could differ from these estimates.

Risks and Uncertainties

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

Internal Revenue Code Status

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

Bonds Payable

The estimated fair value of the University's bonds payable approximate the carrying amount based on rates currently available to the University for debt with similar terms and remaining maturities.

2. Contributions Receivable

Unconditional pledges at June 30 are expected to be realized in the following periods:

	2003	2002
Less than one year	\$ 1,492,732	\$ 1,445,209
One year to five years	10,356,000	9,246,007
Over five years	14,355,487	11,315,534
	<u>26,204,219</u>	<u>22,006,750</u>
Less: Present value discount	<u>(6,996,439)</u>	<u>(5,477,730)</u>
	19,207,780	16,529,020
Charitable remainder trusts	4,512,745	3,787,362
	<u>\$ 23,720,525</u>	<u>\$ 20,316,382</u>

As of June 30, 2003 and 2002, the University has received and not recognized conditional promises and bequests with a future value of approximately \$12,519,000 and \$10,235,000, respectively.

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2003 and 2002

3. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	2003	2002
Contributions receivable	\$ 17,943,224	\$ 15,333,224
Charitable remainder trusts receivable	3,394,665	2,473,942
Annuity and life income funds	3,857,966	3,695,042
Gifts and other unexpended revenues for capital projects	770,088	837,057
Gifts and other unexpended revenues for operations	3,406,465	3,002,309
	<u>\$ 29,372,408</u>	<u>\$ 25,341,574</u>

4. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at June 30:

	2003	2002
Contributions and charitable remainder trusts receivable	\$ 1,265,053	\$ 1,195,793
Annuity and life income funds	2,478,020	2,403,727
Loan funds	536,503	507,426
Donor-restricted contributions	69,397,593	66,412,082
	<u>\$ 73,677,169</u>	<u>\$ 70,519,028</u>

5. Land, Buildings, And Equipment

Land, buildings, and equipment at June 30 are summarized as follows:

	2003	2002
Land	\$ 2,630,752	\$ 2,590,096
Land improvements	13,176,827	12,346,481
Buildings and improvements	123,728,692	118,839,261
Equipment, art and books	39,104,765	34,662,221
Construction in progress	15,098,085	2,423,563
	<u>193,739,121</u>	<u>170,861,622</u>
Less: Accumulated depreciation	<u>(78,958,834)</u>	<u>(70,959,708)</u>
	<u>\$ 114,780,287</u>	<u>\$ 99,901,914</u>

Estimated costs to complete construction in progress at June 30, 2003 are \$7,613,000.

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2003 and 2002

6. Investments

Investments are stated at fair value. Investments by type include the following at June 30:

	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Stocks	46,875,990	51,622,268	60,792,582	64,493,984
Limited Partnerships	2,309,440	22,567,840	1,809,440	18,572,408
Fixed Income Securities	17,970,587	17,970,587	39,044,286	39,035,348
Mutual Fund - fixed income	44,774,550	46,453,558	45,294,867	45,492,883
Mutual Fund - equities	56,173,539	47,874,764	48,023,457	38,941,118
Real Estate and other	1,302,023	1,302,023	1,148,456	1,148,456
	<u>\$ 169,406,129</u>	<u>\$ 187,791,040</u>	<u>\$ 196,113,088</u>	<u>\$ 207,684,197</u>

As of June 30, 2003 and 2002 there was \$17,970,587 and \$38,670,346 of unexpended bond proceeds.

Certain investments are pooled on a fair value basis. The unit fair value is used to account for income distributed and pool transactions. The following table summarizes changes in relationship between cost and fair value of pooled assets:

	Fair Value	Cost	Net Gain (Loss)	Fair Value Per Unit	Number of Units
End of year	\$ 159,904,632	\$ 145,611,248	\$ 14,293,384	\$ 2,607.11	61,334
Beginning of year	163,366,891	156,278,462	<u>(7,088,429)</u>	2,585.99	63,174
Unrealized net gain for the year			7,204,955		
Realized net loss for the year			<u>(6,011,629)</u>		
Net gain for the year			<u>\$ 1,193,326</u>		

The University recognized for spending purposes endowment income equal to 5.5% of a three-year moving average of the fair value of pooled assets for the years ended June 30, 2003 and 2002, respectively. The formula rate exceeded actual endowment pooled investment earnings by approximately \$7,229,000 and \$7,885,000 in 2003 and 2002, respectively. The shortfall was funded by accumulated gains. The average income per unit was \$56.28 in 2003 and \$57.75 in 2002.

The University's non-operating return on investments was as follows for the years ended June 30:

	2003	2002
Dividends and interest	\$ 3,932,293	\$ 3,815,228
Realized losses	(6,020,016)	(10,805,761)
Unrealized gains (losses)	6,877,707	(12,634,117)
Total return on investments	<u>4,789,984</u>	<u>(19,624,650)</u>
Investment return designated for current operations	<u>(11,756,291)</u>	<u>(12,168,374)</u>
Investment return in deficiency of amounts designated for current operations	<u>\$ (6,966,307)</u>	<u>\$ (31,793,024)</u>

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2003 and 2002

7. Debt Obligations

Debt obligations outstanding at June 30 are as follows:

	2003	2002
University		
Capital lease obligation	\$ 2,123,911	\$ 972,291
Dormitory Authority of the State of New York:		
Revenue Bonds - St. Lawrence University		
Issue - 1972 Series B	-	250,000
St. Lawrence County Industrial Development -		
Agency Civic Facility Revenue Bonds		
1996 Series	3,660,000	3,995,000
1998A Series	31,100,000	31,100,000
1998B Series	7,980,000	8,280,000
2001A Series	41,400,000	41,400,000
Total University Obligations	<u>86,263,911</u>	<u>85,997,291</u>
UIC		
Capital lease obligation	3,235	10,521
Term loan	1,120,000	1,280,000
Total debt obligations outstanding	<u>\$ 87,387,146</u>	<u>\$ 87,287,812</u>

In June 2003, the University entered into a capital lease obligation for computer equipment. The original amount of the capital lease obligation was \$1,402,352. The monthly payment amount is \$30,908 which includes principal and interest and is payable through June 2007. The lease obligation bears interest of 2.79%.

In March 2002, the University entered into a capital lease obligation for computer equipment. The original amount of the capital lease obligation was \$1,037,295. The monthly payment amount is \$23,855 which includes principal and interest and is payable through March 2006. The lease obligation bears interest of 4.14%.

In October, 2001, the University issued \$41,400,000 of Series 2001A St. Lawrence County Industrial Development Agency Civic Facility Revenue Bonds. The proceeds of the bonds are being used to finance the construction of a new student center, student townhouses, science facilities, and other campus wide improvements. The bonds were issued as Auction Rate bonds and the interest rate is determined each month at auction. Interest is payable every 28 days and the rates paid during the fiscal year ended June 30, 2003 ranged from 1.05% to 1.5%. The bonds mature in 2031.

In October 1998, the University issued \$9,030,000 of Series 1998B St. Lawrence County Industrial Development Agency Civic Facility Revenue Bonds. The purpose of the bonds was to advance refund \$6,010,000 of outstanding Series 1996 bonds and outstanding 1985 Series Pooled Cap B bonds. The bonds bear interest from 3.55% to 4.75% and mature in varying amounts through 2026.

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June 30, 2003 and 2002

In August 1998, the University issued \$31,100,000 of Series 1998A St. Lawrence County Industrial Development Agency Civic Facility Revenue Bonds. The purpose of the bond issue was for the construction of the new bookstore, renovations of the dining hall, library and athletic facilities, and other campus wide improvements. The bonds bear interest from 5% to 5.5% and mature in varying amounts through 2029.

In June 1996, the University issued \$11,580,000 of Series 1996 St., Lawrence County Industrial Development Agency Civic Facility Revenue Bonds. The purpose of the bond issue was for campus renovations and refinancing of the 1985 Series Pooled Cap B and St. Lawrence County Industrial Development Agency Civic Facility Revenue Bonds. The bonds bear interest from 4.25% to 5.625% and mature in varying amounts through 2013. A portion of these bonds were defeased in October 1998.

In September 1972, the University issued \$2,300,000 of Dormitory Authority Revenue Bonds, Series B. The purpose of the issue was the acquisition of two dormitories and construction of an addition to one of the buildings, and are collateralized by said properties. The bonds were paid off in fiscal 2003.

In 2001, UIC borrowed \$1,600,000 from a financial institution for renovations to the facility. The interest rate on the loan is LIBOR plus 200 basis points. Monthly principal payments of \$13,333, are payable through July 2011. The obligation includes a material adverse change clause which permits the lender to call its debt in the event of a material adverse change in the business. Management does not anticipate any such adverse change in the next twelve months, however, there can be no assurances. The obligation is guaranteed by the University.

In 2000, UIC entered into a capital lease arrangement. The term of the lease is 60 months commencing December 1999, monthly payments including interest at 8.75% are \$660.

Annual principal requirements, including sinking fund deposits, over the next five years for the debt described below are as follows:

2004	\$ 1,424,686
2005	1,641,145
2006	1,603,234
2007	1,465,349
2008	1,144,996
Thereafter	80,107,736
	<u>\$ 87,387,146</u>

Interest expense was \$2,776,639 and \$2,660,467 for the year ended June 30, 2003 and 2002, respectively.

8. Benefit Plans

Faculty, administrative, and non-exempt employees are participants in retirement plans administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The University's policy is to accrue the costs of these defined contribution plans currently. The University's contribution under these plans was approximately \$2,482,000 and \$2,184,000 in 2003 and 2002, respectively.

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The University has a supplemental retirement pension plan, which was frozen on October 5, 1990. The provisions of Financial Accounting Standards Board Statement No. 87 ("SFAS 87"), "Employers' Accounting for Pensions" require recognition in the balance sheet of an additional minimum liability for pension plans with accumulated benefits in excess of plan assets. At June 30, 2003, the liability exceeded the unrecognized prior service cost resulting in a minimum pension liability of \$1,247,305, recorded as a reduction of the University's net assets. Information with respect to this plan is as follows:

	2003	2002
Change in benefit obligation		
Benefit obligation at beginning of period	\$ 5,650,186	\$ 5,392,040
Interest cost	372,013	373,118
Benefits paid	(287,405)	(195,512)
Actuarial loss	340,453	80,540
Benefit obligation at end of period	<u>\$ 6,075,247</u>	<u>\$ 5,650,186</u>
Change in plan assets at fair value		
Plan assets at fair value at beginning of fiscal year	\$ 3,885,218	\$ 4,094,700
Actual return on assets	165,358	(301,954)
Employer contribution	504,469	287,984
Benefits paid	(287,405)	(195,512)
Plan assets at fair value at end of fiscal year	<u>\$ 4,267,640</u>	<u>\$ 3,885,218</u>
Reconciliation of funded status		
Funded status	\$ (1,807,607)	\$ (1,764,968)
Additional minimum liability	1,247,305	762,166
Accrued benefit obligation	<u>\$ (560,302)</u>	<u>\$ (1,002,802)</u>
Weighted-average discount rate	5.75%	6.75%
Expected return on assets	8.50%	8.50%
Components of net periodic benefit cost:		
Interest cost	\$ 372,013	\$ 373,118
Expected return on assets	(335,113)	(338,822)
Unrecognized net loss	25,069	-
Net periodic benefit cost	<u>\$ 61,969</u>	<u>\$ 34,296</u>

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The University also provides health and life insurance benefits for eligible retired employees and their dependents. Information with respect to this plan is as follows:

	2003	2002
Change in benefit obligation		
Benefit obligation at beginning of period	\$ 5,225,108	\$ 4,422,263
Service cost	486,861	226,948
Interest cost	556,874	323,408
Plan participants' contributions	123,075	113,723
Amendments/curtailments/special termination	(1,268,122)	-
Benefits paid	(363,901)	(362,955)
Actuarial loss	5,602,516	501,721
Benefit obligation at end of period	<u>\$ 10,362,411</u>	<u>\$ 5,225,108</u>
Reconciliation of funded status		
Funded status	\$(10,362,411)	\$ (5,225,108)
Unrecognized prior service gain	(1,234,864)	-
Unrecognized net actuarial loss	5,628,100	185,644
Accrued benefit obligation	<u>\$ (5,969,175)</u>	<u>\$ (5,039,464)</u>
Weighted-average discount rate	5.75%	6.75%

For measurement purposes, a 7.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2002. The rate was assumed to decrease gradually to 5.50% by fiscal year 2005 and remain at that level thereafter.

	2003	2002
Components of net periodic benefit cost		
Service cost	\$ 486,861	\$ 226,948
Interest cost	556,874	323,408
Amortization of net actuarial losses	160,060	-
Amortization of unrecognized prior service gain	(33,258)	-
Net periodic benefit cost	<u>\$ 1,170,537</u>	<u>\$ 550,356</u>

Assumed health care cost trend rates have a significant effect on the amount reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total service and interest cost components	\$ 176,229	\$ (156,173)
Effect on postretirement benefit obligation	1,508,909	(1,524,822)

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9. Contingencies

The University is subject to various actions arising out of its operations. The claims are in various stages of processing. The University and legal counsel are unable to conclude as to the ultimate outcome of certain actions due to the actions being in various stages of discovery. It is the opinion of the University's management that the ultimate liability, if any, resulting from these actions will not have a material impact on the University's financial position or statement of activities.