



St. Lawrence University

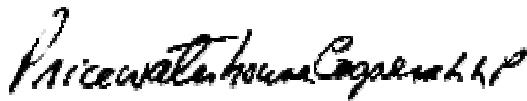
Consolidated Financial Statements

June 30, 2004 and 2003

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, 2004 and 2003, 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.



August 13, 2004

St. Lawrence University
Consolidated Statements of Financial Position
June 30, 2004 and 2003

	2004	2003
Assets		
Cash and cash equivalents	\$ 5,336,486	\$ 4,999,067
Accounts receivable, net	1,374,770	2,031,251
Accrued investment income	449,119	549,892
Inventories	1,643,975	1,681,239
Prepaid expenses and other assets	3,521,145	3,482,814
Contributions receivable	23,714,180	23,720,525
Loans receivable, net	3,177,003	3,048,341
Investments, at fair value	203,494,652	187,791,040
Funds held for deferred giving	12,577,732	10,583,911
Land, building and equipment, net	121,688,910	114,780,287
Total assets	<u>\$ 376,977,972</u>	<u>\$ 352,668,367</u>
Liabilities		
Accounts payable and accrued expenses	\$ 10,340,730	\$ 11,279,798
Deposits and deferred revenues	2,473,562	2,324,079
Annuities and deferred giving obligations	6,271,904	5,364,592
Federal student loan funds	3,168,583	3,177,531
Accrued pension and postretirement benefits	7,903,848	7,776,782
Debt obligations	85,966,508	87,387,146
Total liabilities	<u>116,125,135</u>	<u>117,309,928</u>
Net assets		
Unrestricted	152,089,695	132,308,862
Temporarily restricted	29,670,741	29,372,408
Permanently restricted	79,092,401	73,677,169
Total net assets	<u>260,852,837</u>	<u>235,358,439</u>
Total liabilities and net assets	<u>\$ 376,977,972</u>	<u>\$ 352,668,367</u>

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

St. Lawrence University
Consolidated Statements of Activities
Years Ended June 30, 2004 and 2003

	2004			Total	2003 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating activities					
Tuition and fees	\$ 61,941,252	\$ -	\$ -	\$ 61,941,252	\$ 58,655,105
Room and board revenues	14,895,599	-	-	14,895,599	14,432,554
Less:					
Student financial aid-institutional	(27,811,719)	-	-	(27,811,719)	(27,194,708)
Student financial aid-government SEOG	(492,060)	-	-	(492,060)	(492,588)
Net student revenues	48,533,072	-	-	48,533,072	45,400,363
Auxiliary enterprises	7,876,687	-	-	7,876,687	7,767,569
Government grants	4,662,720	-	-	4,662,720	2,344,341
Private gifts-annual	6,603,919	1,278,853	-	7,882,772	10,321,179
Private gifts-nonrecurring	780,484	915,421	-	1,695,905	4,241,503
Endowment spending formula income	9,620,775	423,592	-	10,044,367	10,925,656
Investment income	323,997	6,188	-	330,185	830,635
Other	1,095,873	-	-	1,095,873	1,065,449
Restrictions released	3,214,800	(3,214,800)	-	-	-
Total operating revenues	82,712,327	(590,746)	-	82,121,581	82,896,695
Instruction	27,540,920	-	-	27,540,920	27,362,165
Research	508,780	-	-	508,780	462,843
Public service	2,111,793	-	-	2,111,793	2,068,180
Academic support	8,508,789	-	-	8,508,789	7,754,844
Student services	13,076,065	-	-	13,076,065	12,669,401
Institutional support	13,313,823	-	-	13,313,823	11,999,558
Auxiliary enterprises	20,286,992	-	-	20,286,992	19,876,125
Total operating expenses	85,347,162	-	-	85,347,162	82,193,116
Net operating activities	(2,634,835)	(590,746)	-	(3,225,581)	703,579
Nonoperating activities					
Total investment return,					
net of spending formula	22,833,579	182,331	2,732,475	25,748,385	(6,966,307)
Contributions for long-term investment	-	-	2,812,308	2,812,308	3,748,999
Deferred giving net activity	-	560,685	18,193	578,878	(573,665)
Other	(957,879)	146,063	(147,744)	(959,560)	(148,204)
Net nonoperating activities	21,875,700	889,079	5,415,232	28,180,011	(3,939,177)
(Decrease) increase in net assets, before minimum pension liability adjustment	19,240,865	298,333	5,415,232	24,954,430	(3,235,598)
Minimum pension liability	539,968	-	-	539,968	(485,139)
(Decrease) increase in net assets	19,780,833	298,333	5,415,232	25,494,398	(3,720,737)
Net assets at beginning of year	132,308,862	29,372,408	73,677,169	235,358,439	239,079,176
Net assets at end of year	\$ 152,089,695	\$ 29,670,741	\$ 79,092,401	\$ 260,852,837	\$ 235,358,439

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

St. Lawrence University
Consolidated Statement of Activities
Year Ended June 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating activities				
Tuition and fees	\$ 58,655,105	\$ -	\$ -	\$ 58,655,105
Room and board revenues	14,432,554	-	-	14,432,554
Less:				
Student financial aid-institutional	(27,194,708)	-	-	(27,194,708)
Student financial aid-government SEOG	(492,588)	-	-	(492,588)
Net student revenues	45,400,363	-	-	45,400,363
Auxiliary enterprises	7,767,569	-	-	7,767,569
Government grants	2,344,341	-	-	2,344,341
Private gifts-annual	5,549,624	4,771,555	-	10,321,179
Private gifts-nonrecurring	781,420	3,460,083	-	4,241,503
Endowment spending formula income	10,489,362	436,294	-	10,925,656
Investment income	817,349	13,286	-	830,635
Other	1,065,449	-	-	1,065,449
Restrictions released	4,393,387	(4,393,387)	-	-
Total operating revenues	78,608,864	4,287,831	-	82,896,695
Instruction	27,362,165	-	-	27,362,165
Research	462,843	-	-	462,843
Public service	2,068,180	-	-	2,068,180
Academic support	7,754,844	-	-	7,754,844
Student services	12,669,401	-	-	12,669,401
Institutional support	11,999,558	-	-	11,999,558
Auxiliary enterprises	19,876,125	-	-	19,876,125
Total operating expenses	82,193,116	-	-	82,193,116
Net operating activities	(3,584,252)	4,287,831	-	703,579
Nonoperating activities				
Total investment return, net of spending formula	(6,690,617)	43,288	(318,978)	(6,966,307)
Contributions for long-term investment	-	-	3,748,999	3,748,999
Deferred giving net activity	-	(286,842)	(286,823)	(573,665)
Other	(149,704)	(13,443)	14,943	(148,204)
Net nonoperating activities	(6,840,321)	(256,997)	3,158,141	(3,939,177)
(Decrease) increase in net assets, before minimum pension liability adjustment	(10,424,573)	4,030,834	3,158,141	(3,235,598)
Minimum pension liability	(485,139)	-	-	(485,139)
(Decrease) increase in net assets	(10,909,712)	4,030,834	3,158,141	(3,720,737)
Net assets at beginning of year	143,218,574	25,341,574	70,519,028	239,079,176
Net assets at end of year	\$ 132,308,862	\$ 29,372,408	\$ 73,677,169	\$ 235,358,439

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

St. Lawrence University
Consolidated Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Change in net assets	\$ 25,494,398	\$ (3,720,737)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	8,174,114	8,136,141
Realized and unrealized (gains) losses on investments	(32,749,387)	(857,691)
Capital contributions	(3,674,270)	(4,670,318)
Change in value of deferred gifts	77,287	71,294
Minimum pension liability adjustment	(539,968)	485,139
Changes in assets and liabilities that provide cash		
Accounts receivable	15,355	(46,352)
Accrued investment income	100,773	114,430
Inventories	37,264	(74,909)
Prepaid expenses and other assets	(38,331)	28,257
Contributions receivable	6,345	(3,345,452)
Accounts payable and accrued expenses	(205,440)	2,340,508
Deposits and deferred revenues	149,483	(276,179)
Postretirement benefits	667,034	487,211
Net cash used in operating activities	<u>(2,485,343)</u>	<u>(1,328,658)</u>
Cash flows from investing activities		
Purchases of plant, books and equipment, net	(14,928,680)	(20,119,638)
Proceeds from student loan collections	860,043	846,187
Student loans issued	(988,705)	(866,820)
Purchase of investments	(173,116,831)	(91,703,917)
Proceeds from sales and maturities of investments	<u>190,162,606</u>	<u>112,454,765</u>
Net cash provided by investing activities	<u>1,988,433</u>	<u>610,577</u>
Cash flows from financing activities		
Contributions for long-term investment	1,862,789	3,235,239
Contributions for long-lived assets	401,126	421,828
Increase in federal student loan funds	(8,948)	66,806
Payments on long-term debt	<u>(1,420,638)</u>	<u>(1,303,018)</u>
Net cash provided by financing activities	<u>834,329</u>	<u>2,420,855</u>
Net increase in cash and cash equivalents	337,419	1,702,774
Cash and cash equivalents		
Beginning of year	<u>4,999,067</u>	<u>3,296,293</u>
End of year	<u>\$ 5,336,486</u>	<u>\$ 4,999,067</u>
Supplemental data		
Interest expense paid, net of interest income capitalized		
\$279,655 and \$262,729 in 2004 and 2003, respectively	\$ 2,248,795	\$ 2,271,509
Gifts in kind	246,559	449,200
Non-cash financing activities		
Construction related payables	871,688	1,605,316
Equipment acquired under a capital lease agreement	641,126	743,596

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

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

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 Laurentian Properties, LLC ("LP"), formerly 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

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

	2004	2003
Total LP revenues	\$ 2,550,614	\$ 2,528,695
Total LP expenses	(2,504,619)	(2,509,097)
Net income	<u>\$ 45,995</u>	<u>\$ 19,598</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, 2004 and 2003

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 \$3,226,000 and \$2,632,000 at June 30, 2004 and 2003, respectively.

Student Accounts and Loans Receivable

Student account and loan receivables at June 30, 2004 and 2003 are reported net of provisions for doubtful accounts of approximately \$453,000 and \$406,000, 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 \$750,000 and \$654,000 for 2004 and 2003, 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 are used to calculate the net present value of the obligations averaged approximately 6%.

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

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:

	2004	2003
Less than one year	\$ 1,325,917	\$ 1,492,732
One year to five years	10,106,000	10,356,000
Over five years	13,218,551	14,355,487
	<u>24,650,468</u>	<u>26,204,219</u>
Less: Present value discount	(6,028,298)	(6,996,439)
	<u>18,622,170</u>	<u>19,207,780</u>
Charitable remainder trusts	5,092,010	4,512,745
	<u>\$ 23,714,180</u>	<u>\$ 23,720,525</u>

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

As of June 30, 2004 and 2003, the University has received and not recognized conditional promises and bequests with a future value of approximately \$7,998,000 and \$12,519,000, respectively.

3. Temporarily Restricted Net Assets

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

	2004	2003
Contributions receivable	\$ 17,562,930	\$ 17,943,224
Charitable remainder trusts receivable	3,974,520	3,394,665
Annuity and life income funds	4,687,831	3,857,966
Gifts and other unexpended revenues for capital projects	381,908	770,088
Gifts and other unexpended revenues for operations	3,063,552	3,406,465
	<u>\$ 29,670,741</u>	<u>\$ 29,372,408</u>

4. Permanently Restricted Net Assets

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

	2004	2003
Contributions and charitable remainder trusts receivable	\$ 2,176,440	\$ 2,383,135
Annuity and life income funds	1,617,964	1,359,938
Loan funds	562,770	536,503
Donor-restricted contributions	74,735,227	69,397,593
	<u>\$ 79,092,401</u>	<u>\$ 73,677,169</u>

5. Land, Buildings, And Equipment

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

	2004	2003
Land	\$ 2,630,752	\$ 2,630,752
Land improvements	14,034,274	13,176,827
Buildings and improvements	146,873,883	123,728,692
Equipment, art and books	42,312,715	39,104,765
Construction in progress	2,339,811	15,098,085
	<u>208,191,435</u>	<u>193,739,121</u>
Less: Accumulated depreciation	<u>(86,502,525)</u>	<u>(78,958,834)</u>
	<u>\$ 121,688,910</u>	<u>\$ 114,780,287</u>

Estimated costs to complete construction in progress at June 30, 2004 are \$2,295,000.

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

6. Investments

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

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 17,901,090	\$ 17,901,090	\$ -	\$ -
Stocks	44,393,816	56,028,598	46,875,990	51,622,268
Limited Partnerships	12,121,364	39,071,161	2,309,440	22,567,840
Fixed Income Securities	14,262,030	13,743,202	17,970,587	17,970,587
Mutual Fund - fixed income	17,488,158	17,478,741	44,774,550	46,453,558
Mutual Fund - equities	55,644,230	57,886,419	56,173,539	47,874,764
Real Estate and other	1,385,441	1,385,441	1,302,023	1,302,023
	<u>\$ 163,196,129</u>	<u>\$ 203,494,652</u>	<u>\$ 169,406,129</u>	<u>\$ 187,791,040</u>

As of June 30, 2004 and 2003 there was \$4,262,053 and \$17,970,587 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	\$ 185,331,004	\$ 151,407,523	\$ 33,923,481	\$ 3,096.83	59,845
Beginning of year	159,904,632	145,611,248	<u>14,293,384</u>	2,607.11	61,334
Unrealized net gain for the year			<u>19,630,097</u>		
Realized net gain for the year			<u>10,433,550</u>		
Net gain for the year			<u>\$ 30,063,647</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, 2004 and 2003, respectively. The formula rate exceeded actual endowment pooled investment earnings by approximately \$7,177,000 and \$7,229,000 in 2004 and 2003, respectively. The shortfall was funded by accumulated gains. The average interest and dividend income per unit was \$43.85 in 2004 and \$56.28 in 2003.

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

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

	2004	2003
Dividends and interest	\$ 3,289,751	\$ 3,932,293
Realized gains (losses)	10,864,632	(6,020,016)
Unrealized gains (losses)	21,968,554	6,877,707
Total return on investments	<u>36,122,937</u>	<u>4,789,984</u>
Investment return designated for current operations	<u>(10,374,552)</u>	<u>(11,756,291)</u>
Investment return in excess (deficiency) of amounts designated for current operations	<u>\$ 25,748,385</u>	<u>\$ (6,966,307)</u>

7. Debt Obligations

Debt obligations outstanding at June 30 are as follows:

	2004	2003
University		
Capital lease obligation	\$ 1,526,508	\$ 2,123,911
St. Lawrence County Industrial Development - Agency Civic Facility Revenue Bonds		
1996 Series	3,310,000	3,660,000
1998A Series	31,100,000	31,100,000
1998B Series	7,670,000	7,980,000
2001A Series	41,400,000	41,400,000
Total University Obligations	<u>85,006,508</u>	<u>86,263,911</u>
LP		
Capital lease obligation	-	3,235
Term loan	960,000	1,120,000
Total debt obligations outstanding	<u>\$ 85,966,508</u>	<u>\$ 87,387,146</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%.

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

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, 2004 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.

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.

In 2001, LP 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.

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

2005	\$ 1,637,914
2006	1,603,239
2007	1,465,355
2008	1,145,000
2009	1,190,000
Thereafter	78,925,000
	<u>\$ 85,966,508</u>

Interest expense was \$2,674,479 and \$2,776,639 net of interest capitalized of \$279,655 and \$262,729 for the year ended June 30, 2004 and 2003, respectively.

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

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 \$2,649,000 and \$2,482,000 in 2004 and 2003, respectively.

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, 2004 and 2003, the liability exceeded the unrecognized prior service cost resulting in a minimum pension liability of \$707,337 and \$1,247,305, respectively, recorded as a reduction of the University's net assets. Information with respect to this plan is as follows:

	2004	2003
Change in benefit obligation		
Benefit obligation at beginning of period	\$ 6,075,247	\$ 5,650,186
Interest cost	333,685	372,013
Benefits paid	(763,623)	(287,405)
Actuarial (loss) gain	(324,139)	340,453
Benefit obligation at end of period	<u>\$ 5,321,170</u>	<u>\$ 6,075,247</u>
Change in plan assets at fair value		
Plan assets at fair value at beginning of fiscal year	\$ 4,267,640	\$ 3,885,218
Actual return on assets	533,328	165,358
Employer contribution	679,294	504,469
Benefits paid	(763,623)	(287,405)
Plan assets at fair value at end of fiscal year	<u>\$ 4,716,639</u>	<u>\$ 4,267,640</u>
Funded status	<u>\$ (604,531)</u>	<u>\$ (1,807,607)</u>
Reconciliation of pension liability		
Prepaid (accrued) pension cost	\$ 102,806	\$ (560,302)
Additional minimum liability	(707,337)	(1,247,305)
Pension liability	<u>\$ (604,531)</u>	<u>\$ (1,807,607)</u>
Weighted-average discount rate	6.25%	5.75%
Expected return on assets	8.50%	8.50%
Components of net periodic benefit cost		
Interest cost	\$ 333,685	\$ 372,013
Expected return on assets	(377,374)	(335,113)
Unrecognized net loss	59,875	25,069
Net periodic benefit cost	<u>\$ 16,186</u>	<u>\$ 61,969</u>

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

Plan Assets

The Company's pension plan weighted average allocation, by asset categories are as follows at June 30:

	2004	2003
Domestic equity securities	53%	52%
Debt securities	36%	38%
International equity securities	11%	10%
	<u>100%</u>	<u>100%</u>

Contributions

The University is expected to contribute approximately \$850,000 to the Retirement Plan for Employees of St. Lawrence University in 2005.

Estimated Future Benefit Payments

The following estimated benefit payments, which reflect future service, as appropriate, are expected to be paid:

July 1, 2004 - June 30, 2005	\$ 1,157,000
July 1, 2005 - June 30, 2006	549,000
July 1, 2006 - June 30, 2007	236,000
July 1, 2007 - June 30, 2008	379,000
July 1, 2008 - June 30, 2009	925,000
Years 2009-2013	2,766,000

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:

	2004	2003
Change in benefit obligation		
Benefit obligation at beginning of period	\$ 10,362,411	\$ 5,385,534
Service cost	680,414	486,861
Interest cost	652,076	556,874
Plan participants' contributions	147,115	123,075
Amendments/curtailments/special termination	-	(1,428,548)
Benefits paid	(382,154)	(363,901)
Actuarial loss	119,868	5,602,516
Benefit obligation at end of period	<u>\$ 11,579,730</u>	<u>\$ 10,362,411</u>
Reconciliation of funded status		
Funded status	\$(11,579,730)	\$(10,362,411)
Unrecognized prior service gain	(1,157,941)	(1,234,864)
Unrecognized net actuarial loss	5,438,354	5,628,100
Accrued benefit obligation	<u>\$ (7,299,317)</u>	<u>\$ (5,969,175)</u>
Weighted-average discount rate	6.25%	5.75%

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

For measurement purposes, a 8.00% and 10% annual rate of increase in the per capita cost of covered health care benefits and prescription drug benefits, respectively, was assumed for fiscal year 2004. These rates were assumed to decrease gradually to 5.00% by fiscal year 2011 for healthcare benefits and 2010 for prescription drug benefits and remain at that level thereafter.

	2004	2003
Components of net periodic benefit cost		
Service cost	\$ 680,414	\$ 486,861
Interest cost	652,076	556,874
Amortization of net actuarial losses	309,614	160,060
Amortization of unrecognized prior service gain	(76,923)	(33,258)
Net periodic benefit cost	<u>\$ 1,565,181</u>	<u>\$ 1,170,537</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	\$ 270,304	\$ (222,103)
Effect on postretirement benefit obligation	1,905,169	(1,616,062)

Cash Flow – Contributions

Expected contributions to the postretirement benefit plans net of employee contribution for fiscal year 2005 are \$380,000.

Estimated Future Benefit Payments

Expected benefit payments, which reflect expected future service for fiscal year:

2005	\$ 379,958
2006	417,653
2007	445,045
2008	485,252
2009	562,740
Years 2010 - 2014	3,797,508

Recent Accounting Pronouncements

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit.

St. Lawrence University
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

In January 2004, FASB Staff Position 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP106-1)*, was issued. FSP106-1 allows for either recognition or deferral of recognition of the provisions of the Act pending authoritative guidance on the accounting for the federal subsidy.

For the year ended June 30, 2004, the University has adopted FSP106-1 and elected to defer the recognition of the provisions of the Act in the determination of its accumulated postretirement benefit obligation and net periodic postretirement benefit cost. Once such guidance is issued, the University may be required to change previously reported FASB 106 information.

In May 2004, FASB Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act (FSP106-2)*, was issued. FSP106-2, which is effective for the University's fiscal year ending June 30, 2005, will supersede FSP106-1, and require that the impact of the Act be included in the University's calculation of its accumulated postretirement benefit obligation and net periodic postretirement benefit cost.

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.