



# **St. Lawrence University**

**Consolidated Financial Statements**

**June 30, 2006 and 2005**

## 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 of cash flows present fairly, in all material respects, the consolidated financial position of St. Lawrence University at June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the 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. 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 10 to the financial statements, the University adopted Financial Accounting Standard Board Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of Financial Accounting Standards Board Statement No. 143.



September 15, 2006

**St. Lawrence University**  
**Consolidated Statements of Financial Position**  
**June 30, 2006 and 2005**

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	2006	2005
<b>Assets</b>		
Cash and cash equivalents	\$ 12,330,995	\$ 6,451,998
Accounts receivable, net	1,167,880	1,288,898
Accrued investment income	194,178	480,699
Inventories	1,737,448	1,647,647
Prepaid expenses and other assets	1,620,623	1,054,074
Contributions receivable	23,621,226	27,014,763
Loans receivable, net	3,172,716	3,231,499
Fair value of swap asset	985,972	-
Investments, at fair value	230,748,209	212,709,672
Funds held for deferred giving	13,007,170	13,006,912
Deposits with trustees of debt obligations	1,903,310	1,373,319
Land, building and equipment, net	136,781,243	123,469,891
Deferred financing costs	2,972,256	2,231,107
Total assets	<u>\$ 430,243,226</u>	<u>\$ 393,960,479</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 11,696,527	11,549,701
Deposits and deferred revenues	2,776,586	2,233,016
Annuities and deferred giving obligations	6,643,652	6,544,675
Federal student loan funds	3,170,565	3,160,903
Accrued pension and postretirement benefits	9,377,367	8,422,937
Debt obligations	101,605,908	86,878,342
Conditional asset retirement obligations	4,233,030	-
Total liabilities	<u>139,503,635</u>	<u>118,789,574</u>
<b>Net assets</b>		
Unrestricted	173,194,862	159,199,467
Temporarily restricted	27,715,025	31,555,816
Permanently restricted	89,829,704	84,415,622
Total net assets	<u>290,739,591</u>	<u>275,170,905</u>
Total liabilities and net assets	<u>\$ 430,243,226</u>	<u>\$ 393,960,479</u>

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

**St. Lawrence University**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2006**  
**(with comparative totals for the year ended June 30, 2005)**

	2006			2005 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating activities</b>				
Tuition and fees	\$ 70,560,546	\$ -	\$ -	\$ 70,560,546
Room and board revenues	16,075,888	-	-	16,075,888
Less:				
Student financial aid-institutional	(29,523,724)	-	-	(29,523,724)
Student financial aid-government SEOG	(445,653)	-	-	(445,653)
Net student revenues	56,667,057	-	-	56,667,057
Auxiliary enterprises	8,167,893	-	-	8,167,893
Government grants	2,523,508	-	-	2,523,508
Private gifts-annual	7,149,737	4,541,421	-	11,691,158
Private gifts-nonrecurring	1,840,974	1,091,457	-	2,932,431
Endowment spending formula income	9,406,978	501,406	-	9,908,384
Investment income	464,405	36,802	-	501,207
Other	1,296,966	9,286	-	1,306,252
Restrictions released	10,328,493	(10,328,493)	-	-
<b>Total operating revenues</b>	<b>97,846,011</b>	<b>(4,148,121)</b>	<b>-</b>	<b>93,697,890</b>
Instruction	30,389,836	-	-	29,396,048
Research	422,452	-	-	427,011
Public service	1,806,133	-	-	1,876,243
Academic support	8,937,541	-	-	8,372,496
Student services	16,049,951	-	-	13,880,897
Institutional support	14,240,851	-	-	14,347,038
Auxiliary enterprises	22,218,328	-	-	20,418,389
<b>Total operating expenses</b>	<b>94,065,092</b>	<b>-</b>	<b>-</b>	<b>88,718,122</b>
<b>Net operating activities</b>	<b>3,780,919</b>	<b>(4,148,121)</b>	<b>-</b>	<b>(651,336)</b>
<b>Nonoperating activities</b>				
Total investment return,				
net of spending formula	13,532,820	98,738	56,254	8,977,044
Change in fair value of swap asset	985,972	-	-	-
Contributions for long-term investment	-	-	4,683,269	6,312,053
Deferred giving net activity	-	30,389	20,972	108,318
Other	(932,676)	178,203	653,587	(319,687)
<b>Net nonoperating activities</b>	<b>13,586,116</b>	<b>307,330</b>	<b>5,414,082</b>	<b>15,077,728</b>
Increase (decrease) in net assets, before cumulative effect of change in accounting principles and minimum pension liability adjustment	17,367,035	(3,840,791)	5,414,082	14,426,392
Cumulative effect of change in accounting principle	(4,187,301)	-	-	-
Increase (decrease) in net assets, before minimum pension liability adjustment	13,179,734	(3,840,791)	5,414,082	14,426,392
(Increase) decrease in minimum pension liability	815,661	-	-	(108,324)
Increase (decrease) in net assets	13,995,395	(3,840,791)	5,414,082	14,318,068
Net assets at beginning of year	159,199,467	31,555,816	84,415,622	260,852,837
Net assets at end of year	\$ 173,194,862	\$ 27,715,025	\$ 89,829,704	\$ 275,170,905

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

**St. Lawrence University**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2005**

	2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating activities</b>				
Tuition and fees	\$ 66,465,150	\$ -	\$ -	\$ 66,465,150
Room and board revenues	14,952,432	-	-	14,952,432
Less:				
Student financial aid-institutional	(28,255,173)	-	-	(28,255,173)
Student financial aid-government SEOG	(565,756)	-	-	(565,756)
Net student revenues	52,596,653	-	-	52,596,653
Auxiliary enterprises	8,074,461	-	-	8,074,461
Government grants	2,767,231	-	-	2,767,231
Private gifts-annual	6,988,648	3,985,882	-	10,974,530
Private gifts-nonrecurring	670,706	1,744,610	-	2,415,316
Endowment spending formula income	9,223,953	421,388	-	9,645,341
Investment income	492,765	8,245	-	501,010
Other	1,092,244	-	-	1,092,244
Restrictions released	4,339,575	(4,339,575)	-	-
Total operating revenues	86,246,236	1,820,550	-	88,066,786
Instruction	29,396,048	-	-	29,396,048
Research	427,011	-	-	427,011
Public service	1,876,243	-	-	1,876,243
Academic support	8,372,496	-	-	8,372,496
Student services	13,880,897	-	-	13,880,897
Institutional support	14,347,038	-	-	14,347,038
Auxiliary enterprises	20,418,389	-	-	20,418,389
Total operating expenses	88,718,122	-	-	88,718,122
Net operating activities	(2,471,886)	1,820,550	-	(651,336)
<b>Nonoperating activities</b>				
Total investment return, net of spending formula	8,880,517	71,913	24,614	8,977,044
Contributions for long-term investment	-	-	6,312,053	6,312,053
Deferred giving net activity	-	(30,919)	139,237	108,318
Other	(595,229)	23,531	252,011	(319,687)
Net nonoperating activities	8,285,288	64,525	6,727,915	15,077,728
Increase in net assets, before minimum pension liability adjustment	5,813,402	1,885,075	6,727,915	14,426,392
(Increase) decrease in minimum pension liability	(108,324)	-	-	(108,324)
Reclassification of net assets	1,404,694	-	(1,404,694)	-
Increase in net assets	7,109,772	1,885,075	5,323,221	14,318,068
Net assets at beginning of year	152,089,695	29,670,741	79,092,401	260,852,837
Net assets at end of year	\$ 159,199,467	\$ 31,555,816	\$ 84,415,622	\$ 275,170,905

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

**St. Lawrence University**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 15,568,686	\$ 14,318,068
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	8,913,578	9,076,291
Conditional asset retirement obligation	4,187,301	-
Realized and unrealized gains on investments	(21,089,401)	(16,336,262)
Contributions for long-term investment and long-lived assets	(8,322,948)	(6,586,872)
Change in value of deferred gifts	360,607	57,580
Change in fair value of interest rate swap	(985,972)	-
Minimum pension liability adjustment	(815,661)	108,324
Changes in assets and liabilities that provide cash:		
Accounts receivable	121,018	85,872
Accrued investment income	286,521	(31,580)
Inventories	(89,801)	(3,672)
Prepaid expenses and other assets	32,023	139,679
Contributions receivable	3,393,537	(3,300,583)
Accounts payable and accrued expenses	649,436	718,721
Deposits and deferred revenues	40,960	(240,546)
Accrued pension and postretirement benefits	1,171,519	410,765
Net cash provided by (used in) operating activities	<u>3,421,403</u>	<u>(1,584,215)</u>
<b>Cash flows from investing activities</b>		
Purchases of buildings and equipment, net	(21,948,488)	(10,224,442)
Proceeds from sale of land, buildings and equipment	96,147	668,711
Proceeds from student loan collections	963,395	910,373
Student loans issued	(904,612)	(964,869)
Purchase of investments	(146,705,269)	(150,431,483)
Proceeds from sales and maturities of investments	149,756,133	156,179,406
Additions to deposits with trustee	(691,949)	-
Net cash used in investing activities	<u>(19,434,643)</u>	<u>(3,862,304)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowing	20,850,000	-
Proceeds/(payments) from borrowing on line of credit	(2,000,000)	2,000,000
Contributions for long-term investment	4,507,227	4,014,958
Contributions for long-lived assets	3,333,833	2,269,725
Increase (decrease) in federal student loan funds	9,662	(7,680)
Payments on long-term debt	(4,122,434)	(1,714,972)
Deferred financing costs	(848,009)	-
Use of deposits with trustee	161,958	-
Net cash provided by financing activities	<u>21,892,237</u>	<u>6,562,031</u>
Net increase in cash and cash equivalents	5,878,997	1,115,512
<b>Cash and cash equivalents</b>		
Beginning of year	<u>6,451,998</u>	<u>5,336,486</u>
End of year	<u>\$ 12,330,995</u>	<u>\$ 6,451,998</u>
<b>Supplemental data</b>		
Interest expense paid, net of interest capitalized of \$248,567 and \$169,399 in 2006 and 2005, respectively	\$ 3,623,193	\$ 3,135,010
Gifts in kind	220,000	88,500
Asset retirement cost	45,729	-
<b>Non-cash financing activities</b>		
Change in construction related payables	582,707	1,029,390
Equipment acquired under a capital lease agreement	-	626,806

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

# St. Lawrence University

## Notes to Consolidated Financial Statements

### June 30, 2006 and 2005

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#### 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 2,100 full-time students, with nearly an equal number of men and women from most U. S. states and fifty-one other countries.

#### **Basis of Presentation**

The financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and Laurentian Properties, LLC ("LP"), a wholly-owned subsidiary. All material transactions between the University and its subsidiary have been eliminated.

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 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 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:

	2006	2005
Total LP revenues	\$ 3,044,939	\$ 2,775,194
Total LP expenses	<u>(2,984,672)</u>	<u>(2,631,771)</u>
Net income	<u>\$ 60,267</u>	<u>\$ 143,423</u>

#### **Cash and Cash Equivalents**

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

#### **Inventories**

Inventories are primarily recorded at the lower of average cost or market.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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**Contributions**

The University records 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 their 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 \$3,117,000 and \$3,020,000 for the years ended June 30, 2006 and 2005, respectively.

**Student Accounts and Loans Receivable**

Student account and loan receivables at June 30, 2006 and 2005 are reported net of provisions for doubtful accounts of approximately \$503,000 and \$488,000, 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 net of management and custodial fees of approximately \$987,000 and \$880,000 for 2006 and 2005, 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 and are based on risk free rates commensurate with the beneficiary life expectancy.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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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 amount of revenues and expenses during the reporting 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 investments 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. LP is organized as an LLC, therefore all income passes through to the University as sole member and is subject to unrelated business income taxes.

**2. Contributions Receivable**

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

	<b>2006</b>	<b>2005</b>
Less than one year	\$ 5,873,273	\$ 2,420,671
One year to five years	6,352,484	8,762,000
Over five years	15,815,609	16,720,847
	<u>28,041,366</u>	<u>27,903,518</u>
Less: Present value discount	<u>(7,472,209)</u>	<u>(5,078,962)</u>
	20,569,157	22,824,556
Charitable remainder trusts	3,052,069	4,190,207
	<u>\$ 23,621,226</u>	<u>\$ 27,014,763</u>

As of June 30, 2006, the University has received and not recognized conditional promises and bequests with a future value of approximately \$6,900,000.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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**3. Temporarily Restricted Net Assets**

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

	<b>2006</b>	<b>2005</b>
Contributions receivable	\$ 16,911,088	\$ 19,080,641
Charitable remainder trusts receivable	1,248,592	2,990,999
Annuity and life income funds	4,774,200	4,704,708
Gifts and other unexpended revenues for capital projects	2,072,149	1,853,014
Gifts and other unexpended revenues for operations	2,708,996	2,926,454
	<u>\$ 27,715,025</u>	<u>\$ 31,555,816</u>

**4. Permanently Restricted Net Assets**

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

	<b>2006</b>	<b>2005</b>
Contributions and charitable remainder trusts receivable	\$ 5,354,784	\$ 4,941,123
Annuity and life income funds	1,575,942	1,750,938
Loan funds	612,117	587,384
Donor-restricted contributions	82,286,861	77,136,177
	<u>\$ 89,829,704</u>	<u>\$ 84,415,622</u>

**5. Land, Buildings, and Equipment**

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

	<b>2006</b>	<b>2005</b>
Land	\$ 2,654,737	\$ 2,654,737
Land improvements	14,688,075	14,613,279
Buildings and improvements	154,066,567	150,833,369
Equipment, art and books	44,126,243	41,799,201
	<u>215,535,622</u>	<u>209,900,586</u>
Less: Accumulated depreciation	<u>(101,106,558)</u>	<u>(91,995,953)</u>
	114,429,064	117,904,633
Construction in progress	22,352,179	5,565,258
	<u>\$ 136,781,243</u>	<u>\$ 123,469,891</u>

Depreciation expense for the years ended June 30, 2006 and 2005 was approximately \$8,807,000 and \$8,981,000, respectively.

Construction in progress includes certain projects started but not completed at June 30, 2006, the most significant of which is the construction of the Science Center. The estimated cost to complete this and other projects included in construction in progress is approximately \$20,913,000 at June 30, 2006.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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**6. Investments**

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

	<b>2006</b>		<b>2005</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Short-term investments	\$ 4,055,291	\$ 4,055,291	\$ 843,453	\$ 843,453
Stocks	67,975,190	82,512,869	59,674,945	74,510,271
Limited Partnerships	30,578,435	60,530,881	26,964,060	53,952,380
Fixed Income Securities	1,841,143	1,854,064	11,360,456	11,277,329
Mutual Fund - fixed income	10,642,575	10,094,604	10,671,518	10,660,846
Mutual Fund - equities	54,871,490	70,879,136	52,295,599	60,276,703
Real Estate and other	821,364	821,364	1,188,690	1,188,690
	<u>\$ 170,785,488</u>	<u>\$ 230,748,209</u>	<u>\$ 162,998,721</u>	<u>\$ 212,709,672</u>

As of June 30, 2006 and 2005 there were \$247,000 and \$0 of unexpended bond proceeds, included in investments.

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:

	<b>Fair Value</b>	<b>Cost</b>	<b>Net Gain</b>	<b>Fair Value Per Unit</b>	<b>Number of Units</b>
End of year	214,993,079	163,085,338	51,907,741	3,718.97	57,810
Beginning of year	197,381,608	154,723,588	<u>42,658,020</u>	3,361.37	58,721
Unrealized net gain for the year			<u>9,249,721</u>		
Realized net gain for the year			<u>11,283,075</u>		
Net gain for the year			<u>\$ 20,532,796</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, 2006 and 2005, respectively.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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

	<b>2006</b>	<b>2005</b>
Dividends and interest	\$ 2,428,622	\$ 2,823,752
Net realized gains	11,303,543	6,867,340
Net unrealized gains	10,365,238	9,432,303
Total return on investments	<u>24,097,403</u>	<u>19,123,395</u>
Investment return designated for current operations	<u>(10,409,591)</u>	<u>(10,146,351)</u>
Investment return in excess of amounts designated for current operations	<u>\$ 13,687,812</u>	<u>\$ 8,977,044</u>

**7. Debt Obligations**

Debt obligations outstanding at June 30 are as follows:

	<b>2006</b>	<b>2005</b>
<b>University</b>		
Working capital line of credit (a)	\$ -	\$ 2,000,000
Capital lease obligation (b)	795,908	1,458,342
St. Lawrence County Industrial Development - Agency Civic Facility Revenue Bonds		
1996 Series (c)	2,555,000	2,940,000
1998A Series (d)	31,100,000	31,100,000
1998B Series (e)	6,665,000	7,180,000
2001A Series (f)	41,400,000	41,400,000
2005 Series (g)	18,450,000	-
Total University Obligations	<u>100,965,908</u>	<u>86,078,342</u>
<b>LP</b>		
Term loan (h)	640,000	800,000
Total debt obligations outstanding	<u>\$101,605,908</u>	<u>\$ 86,878,342</u>

- (a) The University has a \$5,000,000 operating line of credit.
- (b) The University has entered into capital lease obligations for computer equipment. The original amount of the capital lease obligations was \$2,029,158. The monthly payment amount is \$42,363 which includes principal and interest and is payable through October 2009. The lease obligations bear interest ranging from 2.79% to 3.69%.
- (c) 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.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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- (d) 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 1998A bonds bear interest rates from 5% to 5.5% and mature in varying amounts through 2029.
- (e) 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.
- (f) 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 were 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, 2006 ranged from 2.05% to 3.6%. The bonds mature in 2031.
- (g) In December, 2005, the University issued \$20,850,000 of Series 2005 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 science center. The bonds were issued as Auction Rate bonds and the interest rate is determined every 7 days at auction. Interest is payable every 7 days and the rates paid during the fiscal year ended June 30, 2006 ranged from 2.8% to 3.55%. The bonds mature in 2035.
- (h) 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 commenced August 2001 and continue 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.

The estimated fair value of the University's bonds payable is approximately \$102,501,000 based on rates currently available to the University for debt with similar terms and remaining maturities.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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

2007	\$ 2,589,020
2008	2,273,302
2009	2,323,114
2010	2,295,472
2011	2,310,000
Thereafter	89,815,000
	<u>\$101,605,908</u>

Interest expense was \$3,340,454 and \$2,787,543 net of interest capitalized of \$248,567 and \$169,399 for the year ended June 30, 2006 and 2005, respectively.

**Interest Rate Swap**

In October 2005, the University entered into an interest rate swap agreement with an expiration date of October 2031. Neither the University nor the counterparty, which is a prominent financial investment institution, are required to collateralize their respective obligations under this swap. The purpose of this swap is to fix the interest rate on a portion of variable rate debt and reduce certain exposures to interest rate fluctuations. At June 30, 2006, the notional amount of the swap was \$41,400,000. Under the agreement, the University will pay the counterparty interest at a fixed rate of 3.63% through October 2007 and 3% for the remaining life of the bond. The notional amount does not represent an amount exchanged by the parties, and is thus not a measure of exposure of the University. The amounts exchanged are based on the notional amounts and other terms of the swap. The University has recognized \$3,415 as part of interest expense which represents the net cash payment for the difference between the University's and the counterparty's payments under the swap. At June 30, 2006, the University recognized an increase in net assets of \$985,972, and a related increase in assets on the statement of financial position.

**8. Benefit Plans**

The University has the following benefit plans:

- (a) 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 accrues the costs of these defined contribution plans currently. The University's contribution under these plans was approximately \$2,977,000 and \$2,851,000 in 2006 and 2005, respectively.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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(b) 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, 2006 and 2005, the accumulated benefit obligation exceeded the plan assets resulting in a minimum pension liability of \$0 and \$815,661, respectively, recorded as a reduction of the University’s unrestricted net assets. Information with respect to this plan is as follows:

	<b>2006</b>	<b>2005</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of period	\$ 5,101,091	\$ 5,321,170
Interest cost	247,161	319,656
Benefits paid	(400,198)	(638,676)
Actuarial (gain) loss	(256,309)	98,941
Benefit obligation at end of period	<u>\$ 4,691,745</u>	<u>\$ 5,101,091</u>
<b>Change in plan assets at fair value</b>		
Plan assets at fair value at beginning of fiscal year	\$ 4,794,955	\$ 4,716,639
Actual return on assets	358,875	390,609
Employer contribution	-	326,383
Benefits paid	(400,198)	(638,676)
Plan assets at fair value at end of fiscal year	<u>\$ 4,753,632</u>	<u>\$ 4,794,955</u>
Funded status	<u>\$ 61,887</u>	<u>\$ (306,136)</u>
<b>Reconciliation of pension liability</b>		
Prepaid pension cost	\$ 598,572	\$ 509,525
Additional minimum liability	-	(815,661)
Pension asset (liability)	<u>\$ 598,572</u>	<u>\$ (306,136)</u>
<b>Weighted-average discount rate</b>	6.50%	5.25%
<b>Expected return on assets</b>	8.50%	8.50%
<b>Components of net periodic pension cost (benefit)</b>		
Interest cost	\$ 247,161	\$ 319,656
Expected return on assets	(374,402)	(419,769)
Amortization of unrecognized net loss	38,194	19,777
Net periodic pension cost (benefit)	<u>\$ (89,047)</u>	<u>\$ (80,336)</u>

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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**Plan Assets**

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

	<b>2006</b>	<b>2005</b>
Domestic equity securities	50%	50%
Debt securities	40%	40%
International equity securities	10%	10%
	<u>100%</u>	<u>100%</u>

**Cash Flow - Contributions**

The University expects that there will be no contributions to the plan in 2007.

**Estimated Future Benefit Payments**

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

July 1, 2006 - June 30, 2007	\$ 486,373
July 1, 2007 - June 30, 2008	344,663
July 1, 2008 - June 30, 2009	787,405
July 1, 2009 - June 30, 2010	821,409
July 1, 2010 - June 30, 2011	555,759
Thereafter	2,175,741

- (c) 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:

	<b>2006</b>	<b>2005</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of period	\$ 11,029,694	\$ 11,579,730
Service cost	781,899	503,973
Interest cost	651,363	536,777
Plan participants' contributions	172,996	164,494
Benefits paid	(515,254)	(406,684)
Amendments/curtailments/special termination (a)	(12,437)	(264,316)
Actuarial (gain) loss (b)	(496,974)	(1,084,280)
Benefit obligation at end of period	<u>\$ 11,611,287</u>	<u>\$ 11,029,694</u>
<b>Reconciliation of funded status</b>		
Funded status	\$(11,611,287)	\$(11,029,694)
Unrecognized prior service gain	(1,264,946)	(1,345,334)
Unrecognized net actuarial loss	3,498,866	4,258,226
Accrued benefit obligation	<u>\$ (9,377,367)</u>	<u>\$ (8,116,802)</u>
<b>Discount rates</b>		
Year end benefit obligation	6.50%	5.25%
Net periodic benefit cost	5.25%	6.25%

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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- (a) Amendments made to the plan in 2005 were primarily increases in the deductibles that are paid by the plan participants.
- (b) Amount represents principally the impact of the Medicare Prescription Drug Improvement Act of 2003. The Act provides for a direct government subsidy for employers who continue to offer a retiree drug program that is deemed to be actuarially equivalent to the government plan. The University anticipates that it will qualify for the Medicare Part D prescription drug federal subsidy. In accordance with FASB Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act (FSP 106-2)*, the University recorded the impact of the Act in its June 30, 2005 financial statements. The reduction in the Accumulated Postretirement Benefit Obligation for the subsidy related to benefits attributed to past service as of July 1, 2004 is \$2,776,000. The effect of the subsidy on the measurement of the net periodic postretirement benefit cost for fiscal year 2005 was approximately \$469,000.

For measurement purposes, a 6%, 8% and 11% annual rate of increase in the per capita cost of pre-65 and post-65 covered medical and prescription drug benefits, respectively, was assumed for fiscal year 2006. These rates were assumed to decrease gradually to 5.00% by fiscal year 2014 for medical and prescription drug benefits and remain at that level thereafter.

	<b>2006</b>	<b>2005</b>
<b>Components of net periodic postretirement health cost</b>		
Service cost	\$ 781,899	\$ 503,973
Interest cost	651,363	536,777
Amortization of net actuarial losses	262,386	95,848
Amortization of unrecognized prior service gain	(92,825)	(76,923)
Net periodic postretirement health cost	<u>\$ 1,602,823</u>	<u>\$ 1,059,675</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:

	<b>1% Point Increase</b>	<b>1% Point Decrease</b>
Effect on total service and interest cost components	\$ 307,135	\$ (234,721)
Effect on postretirement benefit obligation	1,790,362	(1,440,878)

**Cash Flow – Contributions**

Contributions to the postretirement benefit plans net of employee contributions for fiscal year 2007 are estimated to be approximately \$371,000.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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**Estimated Future Benefit Payments**

Expected benefit payments, which reflect expected future service for fiscal year, and expected amount of subsidy receipts:

	<b>Gross Payments</b>	<b>Subsidy Receipts</b>
2007	\$ 464,976	\$ (93,550)
2008	499,946	(108,500)
2009	580,250	(121,804)
2010	670,791	(132,869)
2011	761,130	(147,329)
Thereafter	5,104,636	(1,022,301)

**9. Contingencies**

The University is subject to various actions arising out of its operations. The claims are in various stages of development. 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, statement of activities, or cash flows.

**10. Insured Risks**

The University participates in the New York College and University Risk Management Group Trust (the "Trust"). The Trust pays claims and judgments relating to workers' compensation. The Trust charges the University an annual amount based upon the overall experience of the Trust, including University specific experience. The amount of the University's liability for estimated workers' compensation claims is \$179,300 and \$155,290 at June 30, 2006 and 2005, respectively.

**11. Asset Retirement Obligations**

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

Upon adoption of FIN 47 on June 30, 2006, the University recognized \$4,187,301 as the cumulative effect of a change in accounting principle in the statement of activities. As of June 30, 2006, \$45,729 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and \$4,233,030 of conditional retirement asset obligations is reported as a liability on the statement of financial position.

**St. Lawrence University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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The following table illustrates the effect on the change in net assets as if this interpretation had been applied for the year ended June 30:

	<b>2006</b>	<b>2005</b>
Increase from operating activity, as reported	\$ 19,084,637	\$ 14,426,392
Less: Total depreciation and interest accretion costs	<u>(210,628)</u>	<u>(201,029)</u>
Proforma increase from operations	<u>\$ 18,874,009</u>	<u>\$ 14,225,363</u>