

*Generation to Generation*

UNIVERSITY AT BUFFALO FOUNDATION, INC.



ANNUAL  
REPORT  
2001-2002



Dear Friends:

As this report is being prepared for publication, we enter the final phase of *The Campaign for UB: Generation to Generation*. Two years ago this fall, we publicly launched a campaign whose goal and scope were unparalleled in the history of UB and the history of the State University of New York system. Now we head into the home stretch, having reached over 80% of our \$250 million goal, and with every confidence that we will meet and exceed that ambitious mark.

Thomas Jefferson once said, "A nation that rests on the will of the people must also depend on individuals to support its institutions in whatever ways are appropriate if it is to flourish." *The Campaign for UB* is flourishing because of the dedicated service of its volunteer leadership team, the school and program-based campaign chairs, and all of the other alumni and friends who have committed their time and talents on behalf of the campaign.

Chair of the UBF Board of Trustees

At the UB Foundation, we pledge our continuing support of *The Campaign for UB* and the university's ongoing programs and activities through wise stewardship of the resources

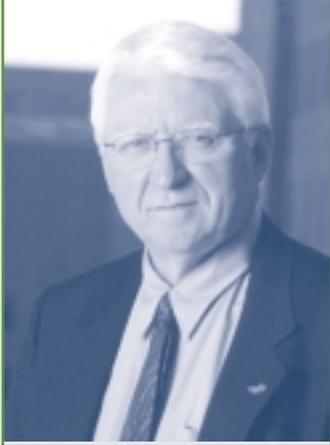
entrusted to our care. The UB Foundation is fortunate to enjoy the active and focused engagement of its board of trustees, who represent a wide variety of professions, and who apply their expertise to such objectives as expanding student scholarship programs, facilitating faculty research endeavors, and enriching the quality of student life. Our volunteers' generous commitment of their energy, time, and skill has achieved tangible results, which have earned widespread recognition. In summer 2002, for example, the UB Foundation was named by Moody's Investment Services in a best practice case study for its guidance and assistance in the construction of on-campus student apartments. In all of our efforts, the members of the foundation aspire to perform our best on behalf of UB.



Reg Newman II

The University at Buffalo concluded the 20th century with a decade of dynamic change. With the support of volunteers, alumni, and friends, *The Campaign for UB* positions the university to continue on this path of innovation and accomplishment towards an even more extraordinary future. Our sincere thanks to all of you whose generosity and service help to make that future a reality.

Sincerely,  
REGINALD B. NEWMAN II  
President, NOCO Energy Corp.



A handwritten signature in black ink that reads "William R. Greiner". The signature is written in a cursive style and is positioned to the left of the main text block.

Dear Alumni and Friends  
of the University at Buffalo:

The University at Buffalo is changing dramatically each year, continuing to evolve as the State University of New York's comprehensive flagship institution. But the scope of our University at Buffalo community can't simply be measured by the size of our student population, the number of our buildings, programs, and facilities, or the space occupied by our two campuses. The real measure of UB is determined by our impact on the communities we serve, and, ultimately, by the lives we change through our partnerships with other research, education, and business institutions in our region.

As the largest and most comprehensive public research university in New York State, UB is committed to public outreach, which begins with our immediate Buffalo-Niagara region and ultimately extends to our global community. UB's economic impact is a key index to our role in the communities we serve. In Western New York alone, our university fuels over a billion dollars in economic activity each year.

One vital area of growth, for example, is our leadership in the emerging field of bioinformatics, which focuses on the analysis of biological data at the molecular level to develop revolutionary methods of gene-based disease diagnosis, treatment, and drug therapy. Our bioinformatics initiatives also offer an excellent example of the educational, research and business partnerships that make UB strong—and help us to share our strengths to benefit the larger communities we serve. As you will see, these and other initiatives at UB are changing not only our university, but our region for the better, and achieving significant results at the state, national, and international levels as well.

President, University at Buffalo

Your support for our university community through *The Campaign for UB: Generation to Generation* helps us continue to strive for greater excellence in all that we do at UB. The following report offers an overview of the exciting developments that have taken place at our university over the past year, as well as insight into the less tangible ideas and resources that make UB's continued growth possible. We are grateful for the support of our university alumni and friends who have made these achievements possible, and we look forward to continuing to work with you to build on these accomplishments in the years ahead.

Sincerely,  
WILLIAM R. GREINER  
President, University at Buffalo

Dear Friends,



This past year was one of powerful events, significant challenges and tremendous changes, not only for our university, but for the world. While the events of September 11 are more than a year old, their impact still remains. The world has changed dramatically, as have our university and the communities in which we live. While some of these changes are a reflection of global events, UB has also aggressively pursued dramatic change—marked by some of its most significant accomplishments, further fueling the university's growing prominence and stature.

During the past decade, through strategic planning and innovative leadership, the University at Buffalo has emerged as one of the nation's best research-intensive public universities, while also being a leader in its missions of teaching and public service. The change at UB has encompassed dramatic scientific discoveries, striking physical improvements to the campus, innovative teaching technologies, and improved measures of student quality. And UB's transformation on campus is acting as a catalyst for further transformation of our region. Accomplishments featured in this report point to the renewed promise of vitality for our local community, the State of New York and the nation.

A handwritten signature in green ink, appearing to read 'J. M. Jacobs'.

In large measure, the vision for UB continues to become a reality thanks to the thousands of alumni and friends who support the university's achievements through their donations to *The Campaign for UB:*

*Generation to Generation.*

UB has a creative and ambitious agenda, and we expect many new opportunities and challenges as we strive to balance tradition with the opportunity to sustain our excellence well into the future. Each gift mentioned in this report is an important contribution to UB's journey toward continued success. These gifts are a vote of confidence for the incredibly talented faculty and staff, and the high standards of education that this university embraces.

Chair of the UB Council and Honorary Co-Chair of *The Campaign for UB: Generation to Generation*

In times of uncertainty, your continued generosity helps the University at Buffalo remain anchored in excellence. We know that the university's ambitious agenda will require even greater support from alumni and friends. The university is truly on the brink of greatness and now, more than ever, we must be poised to support its drive for success. As alumni and friends, we have been part of its history and we must be dedicated to being part of its future. On behalf of the leadership of *The Campaign for UB: Generation to Generation*, you have my deepest appreciation for your continued confidence in UB's future and support of this outstanding, world-class institution.

Sincerely,  
JEREMY M. JACOBS  
Chairman and CEO, Delaware North Companies, Inc.

# 2001-2002 Foundation Board Board of Trustees

The trustees and directors of the University at Buffalo Foundation, Inc., are selected for their distinguished achievements in business, industry, and the professions, as well as for their commitment to the advancement of the university. They provide advice and counsel, while helping present the university's needs to the larger political and business communities. The trustees and directors also oversee the foundation's operating investment policies, and approve all budgets and major expenditures of the foundation.



**William R. Greiner**  
*President*  
University at Buffalo



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*Chair, Board of Trustees*  
*President*  
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*Chairman & Chief*  
*Executive Officer*  
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*Chief Executive Officer*  
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*Executive Officer*  
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Ph. D.  
*Provost*  
University at Buffalo



**Jennifer A. McDonough**  
*Vice President for*  
*University Advancement*  
University at Buffalo

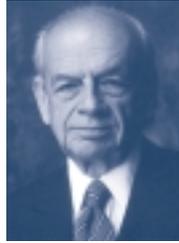


**Edward P. Schneider '80**  
*Executive Director*  
University at Buffalo  
Foundation, Inc.



**Robert J. Wagner '67**  
*Senior Vice President*  
University at Buffalo

## 2001-2002 Foundation Board Board of Directors



Sheldon M. Berlow  
*Chairman*  
Berlow Real Estate, Inc.



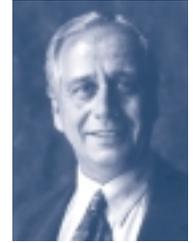
Lawrence P. Castellani  
*CEO*  
Advance Auto Parts



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Ciminelli Development  
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Richard E. Heath, Esq.  
Hodgson, Russ LLP



Stephen S. Marks '65  
*President*  
Silhouette  
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## Officers 2001 - 2002

Reginald B. Newman II, Chair

John N. Walsh III, Vice Chair

Richard E. Heath, Secretary

William L. McHugh, Treasurer

## Importance to the University at Buffalo

With the University at Buffalo in the ranks of the nation's leading institutions, the strong support of private philanthropy is increasingly important. In the years ahead, the foundation will become an even more vital link between the university and the many sources of private gifts.

The quality and intensity of effort put forth by the foundation's trustees and directors will also remain crucial, especially in light of the increasing level of endowments and other forms of philanthropic support coming to the university. The oversight of the trustees and directors will continue to reassure donors that the funds entrusted to the university are managed with the utmost regard for fiscal prudence and fiduciary responsibility.

## Mission Statement

The mission of the University at Buffalo Foundation, Inc., is to support and promote the activities and programs of the University at Buffalo, State University of New York. This is accomplished by providing advice and counsel regarding philanthropy and fund raising, managing gifts and grants on behalf of the university, providing a wide range of financial services for the various units of the university, developing and managing real property on behalf of the university, and providing a strong base of private-sector support for the university through the foundation's trustees and directors.



JUNE 30, 2002

## INVESTMENT PERFORMANCE AND POLICIES

### The Portfolio and Its Management

At June 30, 2002, the market value for total investments of the University at Buffalo Foundation amounted to \$222.7 million, as compared to \$233.3 million in 2001. These funds are managed under the supervision of the foundation's trustee investment committee. Sixteen professional investment managers currently share in the administration of the portfolio, with performance monitored by the trustees. Included in this total are certain investments, known as the Endowment Portfolio, having a market value of \$187.9 million at June 30, 2002, which are managed and administered on a pooled basis.

### Investment Strategy

The primary investment objective is to maximize total investment return while preserving the inflation-adjusted purchasing power of the portfolio. This should provide a relatively predictable, constant and stable (in real terms) stream of funds for current use. Total investment return is the sum of interest, dividends and capital appreciation.

## Endowment Portfolio Performance

Compared to Benchmarks for Fiscal 2002

Total Return	
Endowment Portfolio	-5.7%
*Policy Benchmark	-3.4%
*55% S&P 500/15% MSCI EAFE/30% LB G/C	-9.1%
U.S. Equity Managers	
Endowment Portfolio	-19.3%
*S&P 500	-18.0%
Russell 3000 Index	-17.3%
Non-U.S. Equity Managers	
Endowment Portfolio	-3.3%
*MSCI EAFE	-9.2%
*MSCI EAFE Small Cap	-3.6%
Fixed Income Manager	
Endowment Portfolio-Core	8.8%
*LB Aggregate Bond Index	8.6%
Endowment Portfolio - High Yield	-8.3%
*CSFB Global High Yield	1.6%

### \* KEY TO INDICES

Policy Benchmark:	Comprised of 47% Russell 3000, 12% MSCI EAFE, 3% MSCI EAFE Small Cap, 4% MSCI Emerging Markets Fee, 4% MS Reit Index, 25% LB Aggregate, 5% CSFB Global High Yield
55% S&P 500 15% EAFE/ 30% LB G/C:	Reflects return for standard indices proportionately weighted to compare to portfolio allocation.
S&P 500:	Standard and Poors 500 Index
MSCI:	Morgan Stanley Capital International
LB:	Lehman Brothers
CSFB:	Credit Suisse First Boston

## Asset Allocation Policy

The proper distribution of investments among various asset classes allows the foundation to honor spending policies, maintain risk tolerance and stability, produce appropriate investment returns, and achieve long-term objectives.

Asset allocation at June 30, 2002, was as follows:

By Manager Type	Endowment Portfolio	Long Term Targets
U.S. Equity	40.3%	44.0%
International Equity	14.8%	15.0%
Emerging Market Equity	4.0%	4.0%
REIT	4.4%	4.0%
Absolute Return	.1%	0.0%
Venture/Private Equity	.3%	3.0%
Fixed Income - Core US	31.7%	25.0%
Fixed Income - High Yield	4.2%	5.0%
Cash	.2%	0.0%
	100.0%	100.0%

## Spending Policy

Spending is defined as funds made available from the portfolio for university programs and administrative expenses, exclusive of management, brokerage and custodial fees.

A formula governs the portion of total return made available each year for spending with an objective of maintaining its purchasing power relative to inflation. This formula allows spending to increase by the predetermined annual growth rate of 5% as long as spending stays within 4.5% and 6% of the three-year average market value of principal.

## Endowment Portfolio Performance

Compared to Benchmarks for Fiscal 1992-2001

The accompanying chart reflects the ten-year performance for the Endowment Portfolio in comparison with more than 500 other colleges and universities across the country.

### Average Annual Compounded Nominal Return Fiscal Years Ended June 30

	Total Return	NACUBO Mean*	# of Funds*	UBF Rank	Percentile Rank*
2001	-1.7%	-3.6%	513	177	35
1999-01	4.4%	6.7%	477	343	72
1997-01	9.3%	11.7%	451	351	78
1992-01	11.7%	12.2%	381	193	51

\* Latest available comparative numbers according to the 2001 National Association of College University Business Officers' Endowment Study Report.



# Independent Auditors' Report

The Board of Trustees  
University at Buffalo Foundation, Inc.:

We have audited the accompanying consolidated statements of financial position of University at Buffalo Foundation, Inc. and affiliates (the Foundation) as of June 30, 2002 and 2001, and the related consolidated statements of activities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University at Buffalo Foundation, Inc. and affiliates as of June 30, 2002 and 2001, 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.

**KPMG LLP**

August 16, 2002, except for note 9, which is as of August 31, 2002

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2002 and 2001

### ASSETS

	2002	2001
Accounts receivable	\$ 2,521,988	2,095,981
Note receivable	141,104	166,519
Inventories	415,167	187,549
Contributions receivable	13,816,000	15,478,000
Investments	222,726,444	233,302,566
Property, plant, and equipment, net	102,965,072	91,987,973
Real estate development costs	373,116	399,460

**Total assets** \$ **342,958,891** **343,618,048**

### LIABILITIES AND NET ASSETS

#### Liabilities:

Accounts payable	\$ 3,254,299	3,745,782
Accrued interest expense	2,027,622	1,736,965
Deferred rental revenue	1,218,304	711,694
Other accrued liabilities	1,986,240	1,704,306
Long-term debt	99,330,834	85,611,541
Deposits held in custody for others	6,752,186	7,052,789
Annuity and life income obligations	5,818,659	6,817,667

**Total liabilities** **120,388,144** **107,380,744**

#### Net assets:

Unrestricted:		
Undesignated	22,635,056	22,621,743
Designated for specific operating units	33,745,353	26,533,535
Designated for investment purposes	47,259,561	59,725,541
Total unrestricted	103,639,970	108,880,819
Temporarily restricted	52,525,740	60,901,642
Permanently restricted	66,405,037	66,454,843

**Total net assets** **222,570,747** **236,237,304**

**Total liabilities and net assets** \$ **342,958,891** **343,618,048**

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Change in net assets	\$ (13,666,557)	15,330,305
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,048,112	2,068,482
Net realized and unrealized losses on investments	18,940,519	4,720,162
Actuarial loss on annuity obligations	1,669,567	891,350
Loss on sale of property, plant, and equipment	100,076	88,362
Contributions and other revenues restricted for long-term purposes	(4,360,351)	(7,410,718)
Cash provided (used) by changes in:		
Contributions receivable	1,662,000	(5,324,000)
Other receivables	(400,592)	512,553
Inventories	(227,618)	110,643
Accounts payable	(491,483)	2,560,619
Accrued liabilities	1,079,201	1,521,586
Deposits held in custody for others	(300,603)	(929,700)
<b>Net cash provided by operating activities</b>	<b>7,052,271</b>	<b>14,139,644</b>
Cash flows from investing activities:		
Proceeds from sale of property, plant, and equipment	465,400	30,000
Purchase of property, plant, and equipment	(14,541,939)	(35,025,506)
Proceeds from sale of investments	569,800,962	403,784,827
Purchase of investments	(578,837,754)	(396,576,930)
<b>Net cash used by investing activities</b>	<b>(23,113,331)</b>	<b>(27,787,609)</b>
Cash flows from financing activities:		
Net decrease in notes payable	—	(19,000,000)
Proceeds from long-term debt	14,303,416	26,872,017
Repayments of long-term debt	(606,527)	(516,392)
Investments subject to annuity agreements	(257,807)	71,483
Payments and maturities of annuity obligations	(1,738,373)	(1,189,861)
Contributions and other revenues restricted for long-term purposes	4,360,351	7,410,718
<b>Net cash provided by financing activities</b>	<b>16,061,060</b>	<b>13,647,965</b>
<b>Net increase in cash and cash equivalents</b>	<b>—</b>	<b>—</b>
Cash and cash equivalents at beginning of year	—	—
Cash and cash equivalents at end of year	\$ —	—
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the year	\$ 4,579,100	2,546,300

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF ACTIVITIES

June 30, 2002

	Unrestricted (note 1c)	Temporarily restricted (note 1c)	Permanently restricted (note 1c)	Totals
<b>Revenues and other additions:</b>				
Gifts, bequests, and private grants	\$ 2,268,618	8,004,559	3,460,677	13,733,854
Investment income	3,765,603	3,154,166	99,232	7,019,001
Net realized and unrealized losses on investments	(10,435,827)	(8,504,692)	—	(18,940,519)
<b>Other revenues:</b>				
Faculty practice	5,997,342	—	—	5,997,342
Rental	11,208,125	—	—	11,208,125
Continuing education	5,182,940	—	—	5,182,940
Computer store sales	4,822,332	—	—	4,822,332
Uniform Data Systems	6,882,001	—	—	6,882,001
Intercollegiate athletics program	159,390	—	—	159,390
Nuclear medicine	1,717,392	—	—	1,717,392
Center for Applied Technology in Education	749,664	—	—	749,664
Student orientation	775,377	—	—	775,377
Other activities and services	8,202,374	185,457	—	8,387,831
Adjustment to annuity funds	75	1,940,073	(3,609,715)	(1,669,567)
Net assets released from restrictions	13,155,465	(13,155,465)	—	—
<b>Total revenues and other additions</b>	<b>54,450,871</b>	<b>(8,375,902)</b>	<b>(49,806)</b>	<b>46,025,163</b>
<b>Expenses:</b>				
<b>University support:</b>				
Academic divisions	28,188,743	—	—	28,188,743
Administrative divisions	11,565,912	—	—	11,565,912
Development expense	1,452,962	—	—	1,452,962
Merit scholarships	2,453,758	—	—	2,453,758
Library acquisitions	1,000,000	—	—	1,000,000
Other	976,598	—	—	976,598
<b>Total university support</b>	<b>45,637,973</b>	<b>—</b>	<b>—</b>	<b>45,637,973</b>
<b>Administration and other:</b>				
Business office administration	1,467,447	—	—	1,467,447
Property expense	11,464,790	—	—	11,464,790
Asset management fees	1,121,510	—	—	1,121,510
<b>Total administration and other</b>	<b>14,053,747</b>	<b>—</b>	<b>—</b>	<b>14,053,747</b>
<b>Total expenses</b>	<b>59,691,720</b>	<b>—</b>	<b>—</b>	<b>59,691,720</b>
<b>Change in net assets</b>	<b>(5,240,849)</b>	<b>(8,375,902)</b>	<b>(49,806)</b>	<b>(13,666,557)</b>
Net assets at beginning of year	108,880,819	60,901,642	66,454,843	236,237,304
Net assets at end of year	\$ 103,639,970	52,525,740	66,405,037	222,570,747

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF ACTIVITIES

June 30, 2001

	Unrestricted (note 1c)	Temporarily restricted (note 1c)	Permanently restricted (note 1c)	Totals
<b>Revenues and other additions:</b>				
Gifts, bequests, and private grants	\$ 8,913,351	13,360,601	6,236,260	28,510,212
Investment income	2,934,194	2,209,781	135,176	5,279,151
Net realized and unrealized losses on investments	(2,501,675)	(2,218,487)	—	(4,720,162)
<b>Other revenues:</b>				
Faculty practice	4,502,973	—	—	4,502,973
Rental	7,988,112	—	—	7,988,112
Continuing education	4,135,511	—	—	4,135,511
Computer store sales	3,712,638	—	—	3,712,638
Uniform Data Systems	5,271,933	—	—	5,271,933
Intercollegiate athletics program	1,917,225	—	—	1,917,225
Nuclear medicine	928,354	—	—	928,354
Center for Applied Technology in Education	24,300	—	—	24,300
Student orientation	757,605	—	—	757,605
Other activities and services	7,618,191	235,097	—	7,853,288
Adjustment to annuity funds	—	—	(908,773)	(908,773)
Net assets released from restrictions	11,215,123	(11,215,123)	—	—
<b>Total revenues and other additions</b>	<b>57,417,835</b>	<b>2,371,869</b>	<b>5,462,663</b>	<b>65,252,367</b>
<b>Expenses:</b>				
<b>University support:</b>				
Academic divisions	24,265,856	—	—	24,265,856
Administrative divisions	10,728,797	—	—	10,728,797
Development expense	1,375,402	—	—	1,375,402
Other	2,941,876	—	—	2,941,876
<b>Total university support</b>	<b>39,311,931</b>	<b>—</b>	<b>—</b>	<b>39,311,931</b>
<b>Administration and other:</b>				
Business office administration	1,332,624	—	—	1,332,624
Property expense	8,394,796	—	—	8,394,796
Asset management fees	882,711	—	—	882,711
<b>Total administration and other</b>	<b>10,610,131</b>	<b>—</b>	<b>—</b>	<b>10,610,131</b>
<b>Total expenses</b>	<b>49,922,062</b>	<b>—</b>	<b>—</b>	<b>49,922,062</b>
<b>Change in net assets</b>	<b>7,495,773</b>	<b>2,371,869</b>	<b>5,462,663</b>	<b>15,330,305</b>
Net assets at beginning of year	101,385,046	58,529,773	60,992,180	220,906,999
Net assets at end of year	\$ 108,880,819	60,901,642	66,454,843	236,237,304

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## (1) Organization and Summary of Significant Accounting Policies

### (a) Organization

University at Buffalo Foundation, Inc. (UBF) was chartered in 1962 to promote the educational, research, and public service mission of State University of New York at Buffalo (the University). UBF solicits and administers support for the University and operates in University facilities.

### (b) Basis of Presentation

UBF consolidates its financial statements with those of its affiliated entities to reflect all activities supporting UBF. The accompanying consolidated financial statements include the accounts of: UBF; UBF Corporation; FNUB, Inc.; University at Buffalo Foundation Incubator, Inc. (UBFI); UBF Faculty-Student Housing Corp. (UBF Housing); UB Foundation Activities, Inc. (UBFA); and UB Foundation Services, Inc. (UBFS), collectively referred to herein as the "Foundation." All significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

### (c) Classifications of Net Assets

The Foundation classifies its net assets and changes therein in the categories described below.

#### Unrestricted

Unrestricted net assets represent resources whose use are not restricted by donor-imposed stipulations, thus, these resources are available for the general support of the Foundation's activities.

Unrestricted net assets are further classified as undesignated and designated resources. Undesignated net assets represent the Foundation's net investment in property, plant, and equipment and amounts set aside for maintenance of properties. Designated net assets represent amounts set aside by the Foundation to be used (1) for the support of specific operating units of the University and (2) for investment purposes in order to maintain the purchasing power of the Foundation's resources.

#### Temporarily Restricted

Temporarily restricted net assets represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or are removed by specific actions of the Foundation. Specific actions most

often involve completion of expenditures for purposes consistent with the donor's stipulations. Temporarily restricted net assets of the Foundation are comprised principally of resources that must be expended to support specific academic divisions of the University. When such donor-imposed stipulations are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Foundation uses temporarily restricted net assets before unrestricted net assets are used for the same purpose.

#### Permanently Restricted

Permanently restricted net assets, including split interest agreements represent resources that donors have stipulated must be maintained permanently. The Foundation is permitted to expend part or all of the income derived from the donated assets, restricted only by the donors' wishes.

Donor restrictions placed on the use of income derived from permanently restricted net assets relate principally to the use of the income to support specific academic divisions of the University.

### (d) Contributions

Contributions received, including unconditional promises to give, are generally recognized as revenues in the period received at their fair values. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Discount rates ranged from 1.75% to 3.6% and from 3.4% to 4.6% for 2002 and 2001, respectively.

### (e) Cash and Cash Equivalents

Cash and cash equivalents held for investment purposes are included in investments on the statement of financial position.

### (f) Investments

Investment securities are recorded at fair value based on exchange or third-party quoted market prices. The absolute return and venture/private equity fair value is based on information provided by the partners of the general partnerships.

New York State law permits the use of gains on investments of permanently restricted net assets, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. Accordingly, such realized and unrealized gains and losses, as well as gains and losses on temporarily restricted and unrestricted net assets, are

# Notes to Consolidated Financial Statements

reported as temporarily restricted or unrestricted, based on the presence or absence of donor stipulations as to their use.

**(g) Inventories**

Inventories consist of computer store inventory and are recorded at the lower of cost, using the FIFO method of valuation, or market.

**(h) Real Estate Development Costs**

Costs incurred in connection with the development of real estate projects are capitalized and amortized on the straight-line method over the life of the related asset or the term of the lease that provides for the Foundation's use of that asset. Amortization expense was \$26,344 in 2002 and 2001, and accumulated amortization was \$430,934 and \$404,590 at June 30, 2002 and 2001, respectively.

**(i) Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost or at the fair value at the date of donation. Depreciation is recorded on the straight-line method over estimated useful lives of 20 to 30 years for real property and 5 to 8 years for office equipment. Fine arts have been capitalized from inception at fair value at the date of donation. The fine art collection is not depreciated.

The Foundation reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**(j) Split Interest Agreements**

The Foundation's split interest agreements with donors consist primarily of gift annuities, lead trusts and charitable remainder unitrusts and annuity trusts. Assets held under these agreements are included in investments. Generally, contribution revenues are recognized on the dates of payment transfers to the annuities or trusts and are established after recording liabilities for the present value of the estimated future payments to be made to the beneficiaries. The liabilities, reflected as annuity life income obligations on the statements of financial position, are adjusted during the term of the trusts and annuities for changes in the value of the assets and other changes in the estimates of future benefits.

**(k) Other Activities and Services**

Other activities and services revenue, included in the consolidated statement of activities, reflects amounts generated from educational and training programs, various student activities, laboratory testing and other educational related initiatives, and administrative

support provided through the Foundation. Revenue related to other activities and services is recognized as earned.

**(l) Reclassifications**

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

**(m) Financial Instruments**

Management believes that the recorded value of financial instruments approximates their fair value.

**(2) Contributions**

Contributions receivable, representing unconditional promises to give, as of June 30, 2002 and 2001, are summarized below:

	2002	2001
Unconditional promises expected to be collected in:		
Less than one year	\$ 5,511,300	5,482,800
One year to five years	8,385,900	10,603,000
Over five years	560,100	355,300
	<b>14,457,300</b>	<b>16,441,100</b>
Less:		
Discount	(441,300)	(913,100)
Allowance for uncollectible receivables	(200,000)	(50,000)
	<b>\$ 13,816,000</b>	<b>15,478,000</b>

As of June 30, 2002, the Foundation had also received bequest intentions and revocable trusts that management estimates will exceed \$53,000,000. These intentions and conditional promises to give are not recognized as assets in the accompanying financial statements. Amounts received will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships, and general operating support of particular departments and divisions of the University.

**(3) Investments**

Investments at June 30, 2002 and 2001 are composed of the following:

	2002	2001
U.S. cash and cash equivalents	\$ 20,988,860	39,545,331
U.S. fixed income	70,824,211	71,865,681
Non-U.S. fixed income	—	154,617
U.S. equity	85,293,403	89,263,871
Non-U.S. equity	36,315,863	26,265,680
Real Estate Investment Trust	8,305,369	—
Absolute return	251,766	5,619,941
Venture/private equity	578,173	421,318
Other	168,799	166,127
	<b>\$222,726,444</b>	<b>233,302,566</b>

Investments held in trust under split interest agreements were approximately \$13,550,000 and \$21,909,000 at June 30, 2002 and 2001, respectively.

# Notes to Consolidated Financial Statements

## (4) Property, Plant, and Equipment and Operating Leases

Investment in plant at June 30, 2002 and 2001 is composed of the following:

	2002	2001
Real property, principally rental property	\$ 95,516,031	71,056,041
Less accumulated depreciation	9,348,710	6,825,532
	<b>86,167,321</b>	<b>64,230,509</b>
Office equipment	1,803,008	1,713,193
Less accumulated depreciation	1,447,364	1,369,348
	<b>355,644</b>	<b>343,845</b>
Real estate held for investment	285,881	290,917
Fine art collection	5,595,879	5,922,790
Construction in progress	10,560,347	21,199,912
	<b>\$102,965,072</b>	<b>91,987,973</b>

Construction in progress consists of expenditures related to the various UBF Housing student housing projects. At June 30, 2002, construction-in-progress related to the Creekside Village projects which are comprised of 116 apartment style units and were completed in August 2002. At June 30, 2001, construction-in-progress related to the Flint Village projects which are comprised of 236 apartment style units and were completed in August 2001. A summary of the construction and permanent financing relating to the student housing projects is provided in note 5. Amounts set aside for the maintenance of properties were approximately \$4,531,000 and \$2,293,000 at June 30, 2002 and 2001, respectively, and are primarily included in designated net assets for specific operating units in the statements of financial position. Amounts set aside for debt service were approximately \$6,552,000 and \$5,611,000 at June 30, 2002 and 2001, respectively, and are included in designated net assets for specific operating units in the statements of financial position.

UBF Corporation leases land from State University of New York under an operating lease agreement with an initial term expiring in 2021, renewable to 2037. The base annual rent is approximately \$20,764, adjustable based on the UBF Corporation's net cash flow from this parcel, as defined in the agreement.

Interest of \$811,732 and \$716,636 was capitalized in 2002 and 2001, respectively.

UB Foundation Activities, Inc. leases office space under an operating lease expiring in 2012. The base annual rent is \$156,904 for the first five years and \$168,281 per year for the remaining term.

Rental expense incurred under both operating leases was \$102,294 in 2002 and \$97,293 in 2001.

FNUB, Inc., UBF Corporation, UBF Housing and UBFI are the lessor or sublessor under several real estate operating leases. Minimum future rental revenues under operating leases with original terms in excess of one year as of June 30, 2002 are as follows:

Year ending June 30:	Amount
2003	\$ 322,933
2004	243,452
2005	202,842
2006	46,825
2007	11,810
Thereafter	354,327

Total revenue and expense related to UBF Housing was approximately \$10,463,000 and \$9,924,000, respectively, in 2002 and approximately \$7,510,000 and \$6,460,000, respectively, in 2001. Included in UBF Housing revenue is investment income of approximately \$907,000 and \$1,095,000 in 2002 and 2001, respectively.

## (5) Debt Financing

A summary of long-term debt at June 30, 2002 and 2001 follows:

	2002	2001
Village of Kenmore Housing Authority bonds payable in monthly installments of \$47,516 through 2027 including interest at 4.95%. (Flickinger Project)	\$ 8,203,196	8,356,242
Village of Kenmore Housing Authority bonds payable in annual principal installments that escalate through maturity in August 2024, plus interest ranging from 4.25% to 5.50% adjusted annually. (Hadley Village Project)	20,790,514	21,213,719
Town of Amherst Industrial Development Agency bonds payable in annual principal installments that escalate through maturity in August 2030, plus interest ranging from 4.80% to 5.75% adjusted annually. (South Lake Village Projects)	29,110,811	29,103,340
Town of Amherst Industrial Development Agency bonds payable in annual principal installments that escalate through maturity in August 2031, plus interest ranging from 4.30% to 5.25% adjusted annually. (Flint Village Projects)	26,875,155	26,872,017
Town of Amherst Industrial Development Agency bonds payable in annual principal installments that escalate through maturity in August 2032, plus interest ranging from 3.00% to 5.00% adjusted annually. (Creekside Village Projects)	14,303,416	-
Other	47,742	66,223
	<b>\$99,330,834</b>	<b>85,611,541</b>

# Notes to Consolidated Financial Statements

Interest expense was \$4,058,016 and \$3,245,782 in 2002 and 2001, respectively.

The student housing project bonds are secured by first mortgage interests in the respective properties and the assignment of all related leases, subleases, and rentals. UBF Housing is required to make payments under leasing arrangements with the bond issuers sufficient to service the bonds. Ownership of the properties and related equipment will be transferred to UBF Housing at maturity.

Aggregate maturities of long-term debt at June 30, 2002 are as follows: 2003 - \$777,617; 2004 - \$1,480,075; 2005 - \$1,631,226; 2006 - \$1,764,649, 2007 - \$1,879,325, and \$91,797,942 thereafter.

UBF has guaranteed the payment of Town of Amherst Industrial Development Agency Civic Facility revenue bonds payable from the Faculty Student Association of the State University of New York at Buffalo, Inc., which had an outstanding principal balance of \$6,050,000 at June 30, 2002.

## (6) Retirement Plan

The Foundation has a defined contribution retirement plan covering all employees meeting certain years of service requirements. Benefits are provided by purchase of retirement annuity contracts based upon a percentage of the participant's salary. Expense under the plan was \$844,261 and \$801,630 in 2002 and 2001, respectively. Expense related to the UBF business office administrative employees was \$81,550 and \$76,327 in 2002 and 2001, respectively.

## (7) Income Taxes

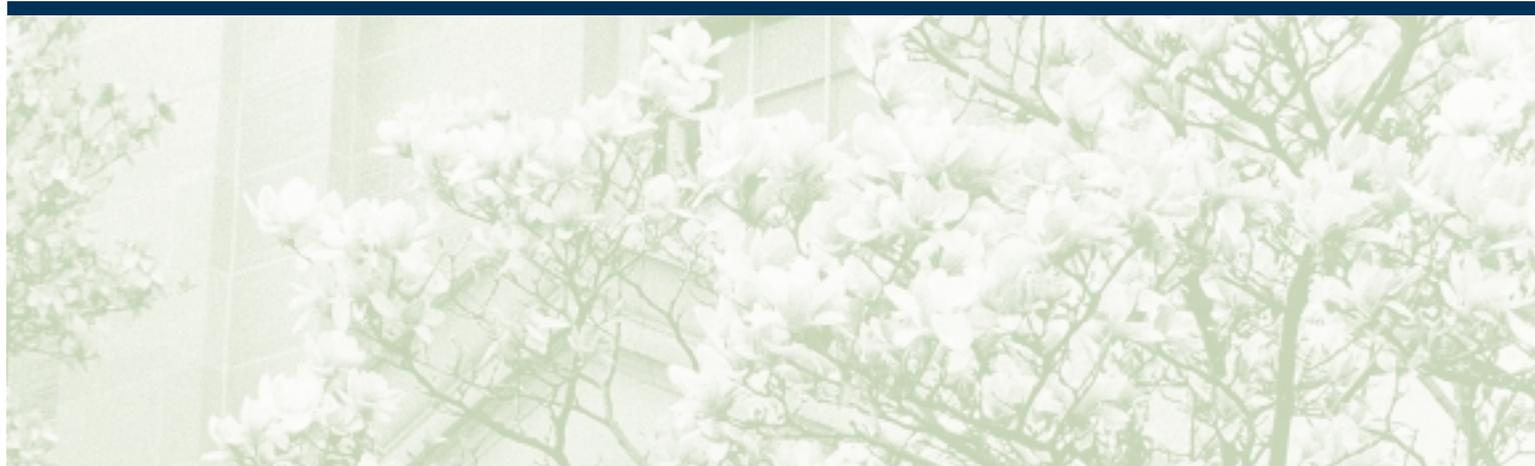
The Internal Revenue Service has ruled that UBF and its affiliates are each generally qualified under Section 501(c) of the Internal Revenue Code and are, therefore, not subject to tax on related income under present Federal income tax laws, and also are not private foundations within the meaning of Section 509(a)(3) of the Internal Revenue Code.

## (8) Related Party Transactions

UBF operates in University facilities at no charge. UBFA provides certain accounting and billing services to nonconsolidated affiliated entities. UBFA receives a fee for these services which is included in other activities and services in the statement of activities. These fees amounted to \$214,249 and \$190,976 in 2002 and 2001, respectively. UBFS holds funds for certain research projects of the University. These funds are reflected as deposits held in custody for others in the statements of financial position.

## (9) Subsequent Event - Change in Market Value

Subsequent to June 30, 2002, volatility experienced in the financial markets has resulted in a significant decline in the market value of certain investments. As of August 31, 2002, the market value of the investment portfolio declined by approximately \$9,500,000 from June 30, 2002.





**University at Buffalo** *The State University of New York*

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