



**UNIVERSITY AT BUFFALO FOUNDATION, INC.
AND AFFILIATES**

Consolidated Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 601
12 Fountain Plaza
Buffalo, NY 14202

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, 2006 and 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, 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, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 7, 2006

**UNIVERSITY AT BUFFALO FOUNDATION, INC.
AND AFFILIATES**

Consolidated Statements of Financial Position

June 30, 2006 and 2005

Assets	2006	2005
Accounts receivable, net of allowance for uncollectible accounts of \$316,000 in 2006 and \$282,000 in 2005	\$ 3,390,366	3,148,215
Note receivable	22,125	55,853
Inventories	525,304	680,583
Contributions receivable (note 2)	8,030,555	10,036,000
Investments (note 3)	327,719,991	295,216,064
Property, plant, and equipment, net (note 4)	89,477,873	92,203,323
Real estate development costs, net	267,740	294,084
Fine art collection	6,530,511	6,459,410
Total assets	<u>\$ 435,964,465</u>	<u>408,093,532</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 4,609,589	3,130,747
Accrued interest expense	1,922,934	1,952,732
Deferred rental revenue	745,606	781,293
Other accrued liabilities	2,765,597	2,479,010
Long-term debt (note 5)	93,682,988	95,447,636
Funds held in custody for others (note 9)	10,812,557	9,556,378
Annuity and life income obligations	6,749,388	5,773,116
Total liabilities	<u>121,288,659</u>	<u>119,120,912</u>
Net assets:		
Unrestricted:		
Undesignated	17,952,778	16,996,626
Designated for specific operating units	73,721,264	62,384,546
Designated for investment purposes	56,083,081	53,708,172
Total unrestricted (note 1c)	<u>147,757,123</u>	<u>133,089,344</u>
Temporarily restricted (note 1c)	76,981,973	73,070,922
Permanently restricted (note 1c)	89,936,710	82,812,354
Total net assets	<u>314,675,806</u>	<u>288,972,620</u>
Total liabilities and net assets	<u>\$ 435,964,465</u>	<u>408,093,532</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY AT BUFFALO FOUNDATION, INC.
AND AFFILIATES**

Consolidated Statement of Activities

Year ended June 30, 2006

	Unrestricted (note 1c)	Temporarily restricted (note 1c)	Permanently restricted (note 1c)	Total
Revenues and other increases:				
Gifts, bequests, and private grants	\$ 4,653,254	5,910,689	5,383,398	15,947,341
Investment income	4,626,979	4,048,528	369,414	9,044,921
Net realized and unrealized gains on investments	13,463,058	10,495,426	—	23,958,484
Other revenues:				
Faculty practice	7,441,472	—	—	7,441,472
Rental (note 4)	15,110,425	—	—	15,110,425
Continuing education	2,739,952	—	—	2,739,952
Computer store sales	9,880,193	—	—	9,880,193
Uniform Data Systems for Medical Rehabilitation	6,935,662	—	—	6,935,662
Nuclear medicine	785,850	—	—	785,850
Center for Applied Technology in Education	350,560	—	—	350,560
Center for the Arts	1,061,989	—	—	1,061,989
Student orientation	824,257	—	—	824,257
Other activities and services	8,880,964	79,434	—	8,960,398
Change in value of split interest agreements	—	8,290	1,371,544	1,379,834
Net assets released from restrictions	16,631,316	(16,631,316)	—	—
Total revenues and other increases	<u>93,385,931</u>	<u>3,911,051</u>	<u>7,124,356</u>	<u>104,421,338</u>
Expenses and other decreases:				
Program expenses:				
Academic divisions	33,242,118	—	—	33,242,118
Administrative divisions	21,287,776	—	—	21,287,776
Fundraising expense	4,564,572	—	—	4,564,572
Total program expenses	<u>59,094,466</u>	<u>—</u>	<u>—</u>	<u>59,094,466</u>
Administration and other:				
Business office administration	1,898,456	—	—	1,898,456
Property expense	16,062,598	—	—	16,062,598
Asset management fees	1,299,392	—	—	1,299,392
Total administration and other	<u>19,260,446</u>	<u>—</u>	<u>—</u>	<u>19,260,446</u>
Total expenses	<u>78,354,912</u>	<u>—</u>	<u>—</u>	<u>78,354,912</u>
Increase in net assets before a cumulative effect of a change in accounting principle	<u>15,031,019</u>	<u>3,911,051</u>	<u>7,124,356</u>	<u>26,066,426</u>
Cumulative effect of a change in accounting principle	(363,240)	—	—	(363,240)
Increase in net assets	14,667,779	3,911,051	7,124,356	25,703,186
Net assets at beginning of year	<u>133,089,344</u>	<u>73,070,922</u>	<u>82,812,354</u>	<u>288,972,620</u>
Net assets at end of year	<u>\$ 147,757,123</u>	<u>76,981,973</u>	<u>89,936,710</u>	<u>314,675,806</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY AT BUFFALO FOUNDATION, INC.
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Consolidated Statement of Activities

Year ended June 30, 2005

	Unrestricted (note 1c)	Temporarily restricted (note 1c)	Permanently restricted (note 1c)	Total
Revenues and other increases:				
Gifts, bequests, and private grants	\$ 4,005,184	6,106,743	8,536,597	18,648,524
Investment income	3,163,425	3,108,591	275,009	6,547,025
Net realized and unrealized gains on investments	10,768,424	7,879,061	—	18,647,485
Other revenues:				
Faculty practice	7,436,271	—	—	7,436,271
Rental (note 4)	14,732,516	—	—	14,732,516
Continuing education	3,297,626	—	—	3,297,626
Computer store sales	9,887,546	—	—	9,887,546
Uniform Data Systems for Medical Rehabilitation	6,610,518	—	—	6,610,518
Nuclear medicine	862,552	—	—	862,552
Center for Applied Technology in Education	718,975	—	—	718,975
Center for the Arts	799,286	—	—	799,286
Student orientation	756,837	—	—	756,837
Other activities and services	8,878,309	646,231	—	9,524,540
Change in value of split interest agreements	(14,443)	—	500,702	486,259
Net assets released from restrictions	13,157,375	(13,157,375)	—	—
Total revenues and other increases	<u>85,060,401</u>	<u>4,583,251</u>	<u>9,312,308</u>	<u>98,955,960</u>
Expenses and other decreases:				
Program expenses				
Academic divisions	30,144,217	—	—	30,144,217
Administrative divisions	21,340,967	—	—	21,340,967
Fundraising expense	4,114,663	—	—	4,114,663
Total program expenses	<u>55,599,847</u>	<u>—</u>	<u>—</u>	<u>55,599,847</u>
Administration and other:				
Business office administration	1,760,344	—	—	1,760,344
Property expense	15,377,999	—	—	15,377,999
Asset management fees	1,269,774	—	—	1,269,774
Total administration and other	<u>18,408,117</u>	<u>—</u>	<u>—</u>	<u>18,408,117</u>
Total expenses	<u>74,007,964</u>	<u>—</u>	<u>—</u>	<u>74,007,964</u>
Increase in net assets	11,052,437	4,583,251	9,312,308	24,947,996
Net assets at beginning of year	122,036,907	68,487,671	73,500,046	264,024,624
Net assets at end of year	<u>\$ 133,089,344</u>	<u>73,070,922</u>	<u>82,812,354</u>	<u>288,972,620</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY AT BUFFALO FOUNDATION, INC.
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Consolidated Statements of Cash Flows
Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Increase in net assets	\$ 25,703,186	24,947,996
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle	363,240	—
Depreciation and amortization	4,269,634	4,152,895
Net realized and unrealized gains on investments	(23,958,484)	(18,647,485)
Actuarial gain on annuity obligations	(1,379,834)	(486,259)
Increase in provision for bad debt	34,614	58,025
Loss on sale/disposal of property, plant, and equipment	308,516	75,619
Gifts of fine art	(71,101)	(351,539)
Contributions and other revenues restricted for long-term purposes	(5,351,460)	(8,652,228)
Cash provided (used) by changes in:		
Contributions receivable	2,775,014	2,760,400
Accounts receivable	(276,765)	142,935
Inventories	155,279	(396,625)
Accounts payable	1,478,842	(694,185)
Accrued interest expense, deferred rental revenue, and other accrued liabilities	(171,739)	99,846
Funds held in custody for others	1,256,179	1,308,652
Net cash provided by operating activities	5,135,121	4,318,047
Cash flows from investing activities:		
Proceeds from collection of note receivable	33,728	31,275
Proceeds from sale of property, plant, and equipment	364,278	1,205,381
Purchase of property, plant, and equipment	(2,132,285)	(2,221,396)
Proceeds from sale of investments	1,431,918,318	1,721,103,984
Purchase of investments	(1,438,753,915)	(1,731,553,878)
Net cash used in investing activities	(8,569,876)	(11,434,634)
Cash flows from financing activities:		
Contributions restricted to investment in endowment	(769,569)	(121,600)
Repayments of long-term debt	(1,793,400)	(1,659,976)
Investments subject to annuity agreements	1,607,448	1,270,089
Payments and maturities of annuity obligations	(961,184)	(1,024,154)
Contributions and other revenues restricted for long-term purposes	5,351,460	8,652,228
Net cash provided by financing activities	3,434,755	7,116,587
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of year	—	—
Cash and cash equivalents at end of year	\$ —	—
Supplemental disclosure of cash flow information:		
Interest paid during the year	\$ 5,032,591	5,109,757
Noncash investing activities:		
Gifts of fine art	71,101	351,539
Net property, plant and equipment recorded related to asset retirement obligations (note 1(o))	29,601	—
Net liability recorded related to asset retirement obligations (note 1(o))	392,841	—

See accompanying notes to consolidated financial statements.

**UNIVERSITY AT BUFFALO FOUNDATION, INC.
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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(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.

(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 consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, 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 is 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 include 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

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reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

When temporarily restricted net assets and unrestricted net assets are available for the same purpose, the Foundation uses the temporarily restricted net assets first.

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 investment return derived from the donated assets, restricted only by the donors' wishes.

Donor restrictions placed on the use of investment return derived from permanently restricted net assets relate principally to the use of the investment return 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. An allowance for uncollectible contributions receivable is recorded as determined by management.

(e) Cash and Cash Equivalents

Cash and money market accounts held for investment purposes are included in investments on the statement of financial position.

(f) Investments

Investments in marketable securities are recorded at fair value based on exchange or third-party quoted market prices. Fair values for certain investments held in alternative structures, such as venture capital/private equities, real estate investment trusts, and hedge funds of funds, are estimated using current information obtained from the general partner or investment manager for the respective funds. These estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

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

Included in investments is cash of \$1,357,505 and \$1,410,120 at June 30, 2006 and 2005, respectively, which represent security deposits on UBF Housing, collected from students.

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(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 using 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, whichever is shorter. Amortization expense was \$26,344 in both 2006 and 2005, and accumulated amortization was \$536,310 and \$509,966 at June 30, 2006 and 2005, respectively.

(i) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation is recorded using the straight-line method over estimated useful lives of 20 to 30 years for real property and 5 to 8 years for office equipment.

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) Fine Art Collection

Fine art has been capitalized from inception at fair value at the date of donation. The fine art collection is not depreciated.

(k) 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 and property, plant, and equipment. 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 third-party beneficiaries. The discount rate utilized was 6.0% and 4.8% at June 30, 2006 and 2005, respectively. The liabilities, reflected as annuity and 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. Upon termination of the income obligation, property of the annuities or trusts is held by the Foundation in accordance with the donor's annuity or trust agreement.

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(l) Other Activities and Services

Other activities and services revenue, included in the consolidated statements of activities, reflect 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.

(m) Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

(n) Financial Instruments

Management believes that the recorded value of financial instruments approximates their fair value, except for long-term debt. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The fair value of long-term debt, estimated by quoted market prices, was approximately \$99,103,000 and \$101,186,000 at June 30, 2006 and 2005, respectively. The carrying amounts of long-term debt of \$93,682,988 and \$95,447,636 at June 30, 2006 and 2005, respectively, are included in the consolidated statements of financial position.

(o) Cumulative Effect of a Change in Accounting Principle

On July 1, 2005, the Foundation adopted FASB Interpretation (FIN) 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 provides guidance on whether an entity has sufficient information to reasonably estimate the fair value of an asset retirement obligation.

The Foundation has recorded a net liability related to its asset retirement obligations of \$392,841 at June 30, 2006, which is included in other accrued liabilities in the consolidated statement of financial position at June 30, 2006. The net effect of the adoption of FIN 47 was an expense of \$363,240, and is included as a cumulative effect of a change in accounting principle in the consolidated statement of activities for the year ended June 30, 2006.

If FIN 47 had been adopted as of all periods presented, the Foundation would have recorded a net liability related to its asset retirement obligations of \$372,361 at June 30, 2005 and \$352,949 at June 30, 2004.

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(2) Contributions

Contributions receivable, representing unconditional promises to give, as of June 30, 2006 and 2005, are summarized below:

	2006	2005
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,740,940	5,920,241
One year to five years	3,361,615	4,017,118
Greater than five years	490,494	660,101
	8,593,049	10,597,460
Less:		
Discount	(362,494)	(361,460)
Allowance for uncollectible contributions receivable	(200,000)	(200,000)
	\$ 8,030,555	10,036,000

Discount rates utilized ranged from 1.25% to 6.60%.

As of June 30, 2006, the Foundation has also received bequest intentions and revocable trusts that management estimates will approximate \$46,000,000. These intentions and conditional promises to give are not recognized as assets in the accompanying consolidated financial statements. Amounts received under these conditional promises to give 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, 2006 and 2005 are composed of the following:

	2006	2005
Cash and cash equivalents	\$ 8,123,315	10,854,017
Fixed income	98,719,686	95,597,695
U.S. equity	75,583,806	67,122,826
Non-U.S. equity	79,310,015	64,138,047
Real Estate Investment Trust	15,481,045	12,577,761
Venture capital/private equities	6,764,038	4,347,132
Hedge funds of funds	41,607,567	37,758,574
Other	2,130,519	2,820,012
	\$ 327,719,991	295,216,064

Investments held in trust under split interest agreements were approximately \$16,230,000 and \$14,569,000 at June 30, 2006 and 2005, respectively.

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The Foundation has committed to invest approximately \$38,676,000 and \$9,156,000 in venture/private equity investments at June 30, 2006 and 2005, respectively.

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

Investment in plant at June 30, 2006 and 2005 is composed of the following:

	2006	2005
Real property, principally rental property	\$ 112,860,959	111,926,966
Less accumulated depreciation	(24,870,969)	(20,739,358)
	87,989,990	91,187,608
Office equipment	2,604,451	2,498,394
Less accumulated depreciation	(2,091,801)	(1,901,090)
	512,650	597,304
Real estate held in trust under split interest agreements	975,233	104,895
Construction in progress	—	313,516
	\$ 89,477,873	92,203,323

Construction in progress at June 30, 2005 consisted of expenditures related to various UBF Housing student housing projects. A summary of the construction and permanent financing relating to the student housing projects is provided in note 5. Amounts set aside for debt service were approximately \$6,552,000 at both June 30, 2006 and 2005, and are included in designated net assets for specific operating units in the statements of financial position. No interest was capitalized in 2006 or 2005.

UBF Corporation leases land from the 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 \$20,476, adjustable based on the UBF Corporation's net cash flow from this parcel, as defined in the agreement. UB Foundation Activities, Inc. leases office space under an operating lease entered into in 2002 and 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 all operating leases was \$423,302 in 2006 and \$311,267 in 2005.

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FNUB, Inc., UBF Corporation, UBF Housing and UBF 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, 2006 are as follows:

	Amount
Year ending June 30:	
2007	\$ 394,386
2008	104,636
2009	63,436
2010	60,711
2011	60,711
Thereafter	364,133

Total revenue and expense related to UBF Housing was approximately \$13,538,000 and \$13,739,000, respectively, in 2006 and approximately \$13,187,000 and \$13,381,000 respectively, in 2005.

(5) Debt Financing

A summary of long-term debt at June 30, 2006 and 2005 follows:

	2006	2005
Village of Kenmore Housing Authority bonds payable in monthly installments of \$47,516 through January 2028, including interest at 4.95%. (Flickinger Project)	\$ 7,504,039	7,692,439
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)	18,862,693	19,375,898
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)	28,165,695	28,493,224
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)	25,500,220	25,976,454
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)	13,650,341	13,909,621
	\$ 93,682,988	95,447,636

The Foundation complied with the terms of its debt covenants at June 30, 2006 and 2005.

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Interest expense was \$5,002,793 and \$5,083,047 in 2006 and 2005, respectively.

The Flickinger Project bonds are secured by first mortgage interests in the property and the assignment of all related leases, subleases and rentals. For the remaining student housing projects, each bond issuance is secured by a first mortgage lien on UBF Housing's ground leasehold interest for such project and by assignment of all leases, subleases and rentals related to such project. UBF Housing is required to make payments under leasing arrangements with the bond issuers sufficient to service the bonds.

Aggregate maturities of long-term debt at June 30, 2006 are as follows: 2007 – \$1,879,324, 2008 – \$2,023,499, 2009 – \$2,175,141, 2010 – \$2,351,383, 2011 – \$2,478,202, and thereafter – \$82,775,439.

(6) Guarantees

The Foundation has guaranteed a \$500,000 line of credit of Central Radiopharmaceutical Services, Inc., a nonconsolidated affiliated entity, at the request of the lender as additional security. The maximum guarantee under the agreement is \$500,000. There are no amounts outstanding under this borrowing at either June 30, 2006 or 2005. The guarantee is for the entire amount and term of the borrowings. The guarantee is secured by investments of the affiliate held by the Foundation totaling \$590,911 at June 30, 2006. The Foundation would have to perform under the guarantee upon default of Central Radiopharmaceutical Services, Inc.

The Foundation has guaranteed the payment of certain employee mortgages under the University Employee Residential Loan Program in support of the efforts of the State University of New York at Buffalo to encourage the ownership and renovation of single-family and two-family homes within the City of Buffalo neighborhood known as University Heights. The maximum guarantee under the agreement is \$1,500,000. The guarantee is for the entire amount. The Foundation is discharged from the guarantee upon the occurrence of certain qualifying events. If the employee defaults on the mortgage, the Foundation would have to perform under the guarantee. The maximum amount of undiscounted payments the Foundation would have to make in the event of default is \$1,087,396 at June 30, 2006 and \$717,626 at June 30, 2005.

The Foundation has guaranteed a \$6,050,000 borrowing from the Town of Amherst Industrial Development Agency Civic Facility revenue bonds by the Faculty Student Association of the State University of New York at Buffalo, Inc., a nonconsolidated affiliated entity, at the request of the lender as additional security. The borrowing, which bears interest at rates ranging from 2.8% to 5.75%, is due in annual installments through April 1, 2017. The guarantee is for the entire amount of the borrowing. The Foundation is discharged from the guarantee upon the earlier of the fifth anniversary of the closing date or when the debt is irrevocably paid in full. If the affiliate defaults on payment, the Foundation would have to perform under the guarantee. The maximum amount of undiscounted payments the Foundation would have to make in the event of default is \$5,130,000 at June 30, 2006 and \$5,445,000 at June 30, 2005.

The Foundation has guaranteed a line of credit for UB Associates, Inc., a nonconsolidated affiliated entity, at the request of the lender as additional security. The maximum guarantee under the agreement is \$125,000. There are no amounts outstanding under this borrowing at either June 30, 2006 or 2005. The guarantee is for the entire amount and term of the borrowings. The Foundation would have to perform under the guarantee upon default of UB Associates, Inc.

**UNIVERSITY AT BUFFALO FOUNDATION, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

The borrowings are not included in the consolidated statements of financial position as management does not believe it is probable that the Foundation will need to make repayments pursuant to the guarantees.

(7) 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 \$1,262,627 and \$1,218,833 in 2006 and 2005, respectively.

(8) Income Taxes

UBF, FNUB, Inc., UBFI, UBF Housing, UBFA, and UBFS are all tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code). UBF Corporation is a tax-exempt organization described in Section 501(c)(2) of the Code. UBF and its affiliates are generally exempt from income taxes pursuant to Section 501(a) of the Code.

(9) Related-Party Transactions

UBF operates on the University's campus at no charge. UBFA provides certain accounting 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 \$148,220 and \$228,619 in 2006 and 2005, respectively.

UBFS holds funds for certain research projects of the University. These funds are reflected as funds held in custody for others in the statements of financial position.