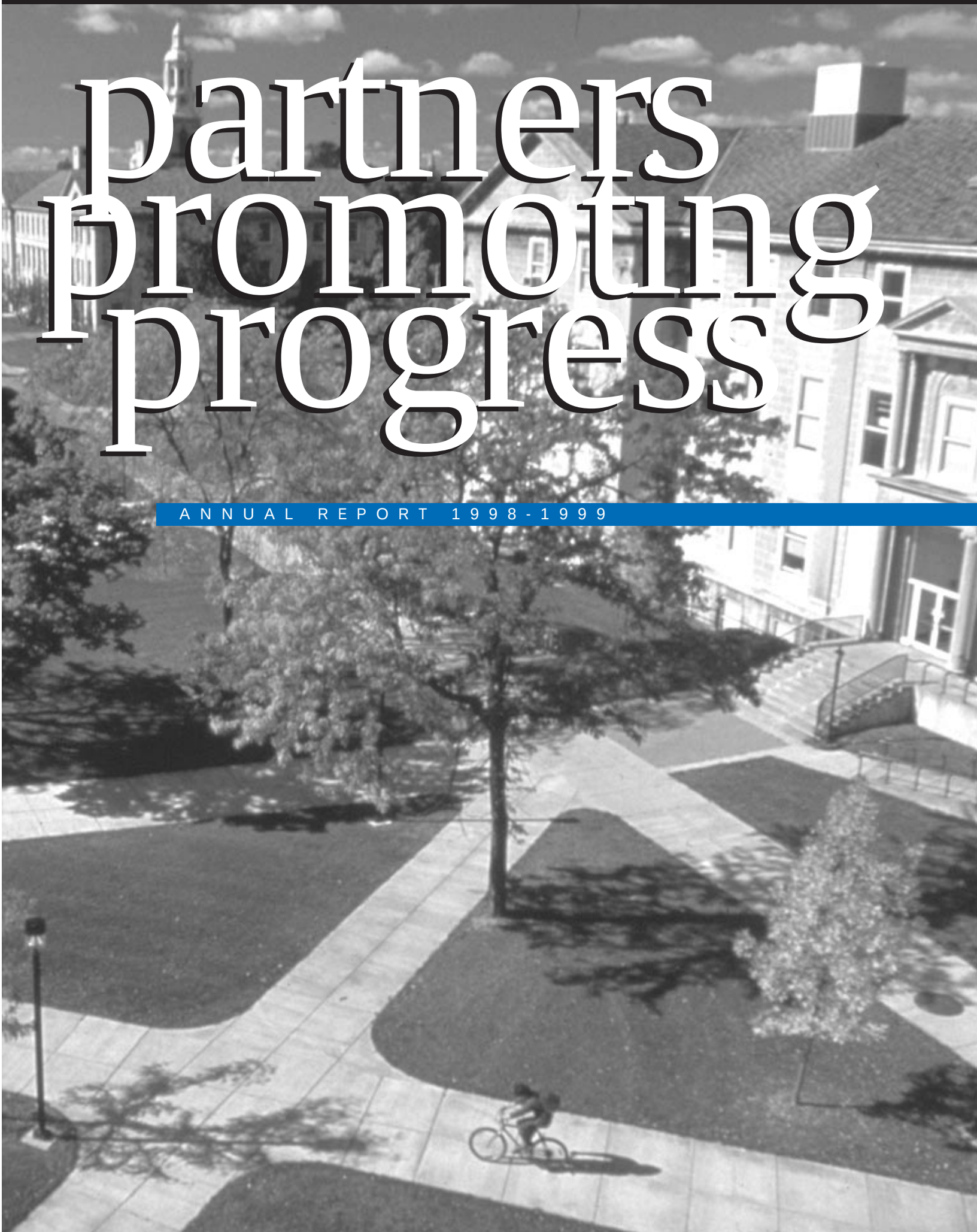
UNIVERSITY AT BUFFALO FOUNDATION, INC.

partners promoting progress

ANNUAL REPORT 1998-1999



1998-1999 Foundation Board

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.

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Message from the University at Buffalo Foundation Chair

PARTNERS PROMOTING PROGRESS

As we prepare to begin a new millennium, the University at Buffalo Foundation, Inc. continues to channel its energies in support of the mission of UB, and the many general initiatives that uphold that vision. During this past fiscal year, the Foundation has also focused on efforts that will insure forward-moving policies and procedures well into the 21st century.

Once again, many of our initiatives were accelerated and enhanced by the partnerships developed with outside entities, and the Foundation takes great pride in its role in furthering these partnerships on behalf of the university.

Perhaps one of the most important testaments of how UB has utilized its partnerships is the opening of Hadley Village, the first new on-campus housing to be built at the university in a quarter of a century. Student housing has become a high priority for the Foundation, as UB strives to remain competitive with other universities and meet the changing needs of students. We are pleased to report that, as other phases of student housing begin, 100% of the completed Hadley Village is occupied.

Fundraising is a constant focus, as efforts are always underway to further the university's financial goals. The Foundation plays an important role in efforts to build relationships that contribute to the financial advancement of UB. Our success is built not just on the collection, but the promise of each relationship, as we help cultivate these partnerships for future endeavors.

The Foundation continues to operate in a fiscally prudent manner in an effort to leverage its financial resources for future progress. Critical decisions are being made to position the investment portfolio for success in the next century. We are fortunate to have a capable team of experts providing the guidance and information needed to continue the positive direction going into the new millennium.

We are always grateful to those who support our many endeavors, and look forward to cultivating more relationships that will guarantee the future success of UB, its faculty, staff and students.

Sincerely,

Reginald B. Newman II
Chair, Board of Trustees
University at Buffalo Foundation, Inc.

1998-1999 Foundation Board

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IN MEMORIAM

William H. Pearce
(with Mrs. Elizabeth Pearce at the 1995 Founders Dinner)

Donald A. Ross
(with Mrs. Carol Greiner and President Jimmy Carter)

This year the University at Buffalo lost two very important friends and supporters, whose service to the University and the UB Foundation is remembered with deep appreciation.

Donald A. Ross '51, made a great impression at UB, serving more than 25 years as the treasurer and a director of the UB Foundation. Mr. Ross' business sense and leadership were instrumental to the success of significant university initiatives, including the North Campus Commons.

Developer and philanthropist William Howard Pearce gave generously of his time and support. He served as a trustee of the UB Foundation since 1989, and as a board member of the Friends of the School of Architecture and Planning. Mr. Pearce received the 1994 Walter P. Cooke Award recognizing notable and meritorious contributions to UB and its family by a non-alumnus.

The vision and contributions of Mr. Ross and Mr. Pearce have greatly enriched the University at Buffalo. Their legacies will long be remembered.

Officers for 1998-1999

Reginald B. Newman II, Chair

John N. Walsh III, Vice Chair

Richard E. Heath, Secretary

Donald A. Ross, Treasurer

UB FOUNDATION, INC. AND AFFILIATES

Mission Statement

The mission of the University at Buffalo Foundation, Inc. is to support and promote the activities and programs of the State University of New York at Buffalo. This is accomplished by providing advice and counsel regarding philanthropy and fund raising, managing gifts and the 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.

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.

Investment Performance and Policies

The Portfolio and Its Management

At June 30, 1999 the market value for Total Investments (including Cash and Cash Equivalents) of the University at Buffalo Foundation amounted to $189.8 million, up from $178.8 million in 1998. These funds are managed under the supervision of the Foundation's Trustee Investment Committee. Thirteen 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 (the perpetually invested endowment assets designated for the benefit of the University at Buffalo being held by the UB Foundation), having a market value of $167.5 million at June 30, 1999 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 1999

Total Return
- Endowment Portfolio 7.6%
- *CA Endowment Median 9.6%
- *55% S&P 500/15% MSCI EAFE/30% LB G/C 14.8%

U.S. Equity Managers
- Endowment Portfolio 10.7%
- *S&P 500 . . . . . 22.8%
- *CA U.S. Equity (ex Small Cap) Manager Median 17.9%

Non-U.S. Equity Managers
- Endowment Portfolio 11.9%
- *MSCI EAFE Index 7.6%
- *CA Non-U.S. Equity Manager Median 6.5%

Absolute Return Managers
- Endowment Portfolio 6.3%
- 91 Day T-Bills Plus 8% 12.8%

Fixed Income Manager
- Endowment Portfolio 1.1%
- *LB G/C 2.7%
- *CA Fixed Income Manager Median 3.5%

* Key to Indices

CA: Cambridge Associates provides investment and financial research and consulting services to non-profit endowed institutions. They prepare the annual NACUBO Endowment Study used by colleges and universities to evaluate investment performance and investment policies and practices. Their database contains over 3,000 managers and over 200 endowment portfolios.

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 Poor's 500 Index

MSCI/EAFE: Morgan Stanley Capital International/Europe, Australia, New Zealand, Far East Index

LB G/C: Lehman Brothers Government/Corporate Bond Index

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 pre-determined 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 1989-1998

The accompanying chart reflects the ten-year performance for the Endowment Portfolio in comparison with more than 400 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**
1998	16.1%	18.0%	445	313	71
1996-98	17.5%	18.5%	432	279	65
1994-98	15.2%	14.7%	416	151	37
1989-98	14.5%	13.2%	323	53	17

* Latest available comparative numbers according to the 1998 National Association of College University Business Officers' Endowment Study Report.

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, 1999 was as follows:

By Manager Type	*Endowment Portfolio*
U.S. Equity	47.3%
Non-U.S. Equity	16.1%
Absolute Return	9.5%
Fixed Income	27.1%
	100%

NOTE: Absolute Return are investment strategies designed to produce positive return regardless of market direction. Includes hedge funds holding long and short positions in common stocks, event arbitrage (investment in stocks of companies that are subject to announced takeover transactions), and distressed securities investments (investment in debt of companies in bankruptcy).

Independent Auditors' Report

UB FOUNDATION, INC. AND AFFILIATES

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, 1999 and 1998, 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 generally accepted auditing standards. 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, 1999 and 1998, and the changes in their net assets and their cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG LLP

Buffalo, New York
August 17, 1999

Consolidated Statements

UB FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Financial Position

June 30, 1999 and 1998

	1999	1998 (as adjusted, note 1(c))
Assets		
Cash and cash equivalents	$ 1,853,280	1,032,625
Accounts receivable	2,167,728	2,208,165
Note receivable	201,250	201,250
Inventories	263,192	387,476
Contributions receivable	4,776,150	3,389,000
Investments	187,968,796	177,752,568
Property, plant and equipment, net	31,066,931	15,996,200
Real estate development costs	452,148	478,492
Total assets	***228,749,475***	***201,445,776***
Liabilities and Net Assets		
Liabilities:		
Accounts Payable	3,735,840	2,431,552
Accrued liabilities	1,532,706	1,437,981
Notes payable	10,603,184	5,124,924
Bonds payable	8,642,565	8,700,000
Deposits held in custody for others	8,765,552	7,122,950
Annuity and life income obligations	8,765,505	7,467,397
Total liabilities	***42,045,352***	***32,284,804***
Net assets:		
Unrestricted:		
Undesignated	11,240,154	9,488,953
Designated for specific operating units	15,259,239	13,718,507
Designated for investment purposes	56,996,160	52,366,483
Temporarily restricted	52,417,165	48,805,325
Permanently restricted	50,791,405	44,781,704
Total net assets	***186,704,123***	***169,160,972***
Total liabilities and net assets	***228,749,475***	***201,445,776***

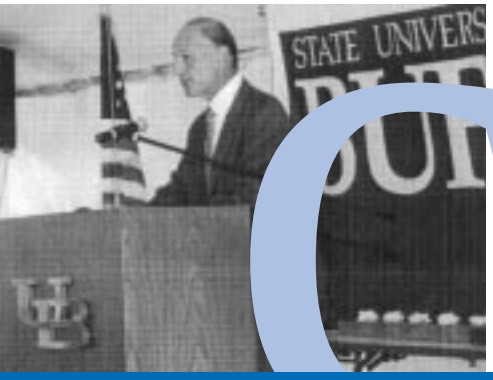
See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended June 30, 1999 and 1998

Cash flows from operating activities:	1999	1998 (as adjusted, note 1(c))
Change in net assets	$ 17,543,151	24,072,939
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	663,660	508,050
Net realized and unrealized gains on investments	(8,140,643)	(14,872,402)
Loss (gain) on sale of property, plant and equipment	(1,415)	127,986
Contributions and other revenues restricted for long-term purposes	(6,235,024)	(8,885,246)
Cash provided (used) by changes in:		
Contributions receivable	(1,387,150)	2,346,000
Other receivables	40,437	1,060,247
Inventories	124,284	42,657
Accounts payable	1,304,288	387,007
Accrued liabilities	94,725	133,991
Deposits held in custody for others	1,642,602	1,033,695
Annuity and life income obligations	1,298,108	1,534,754
Net cash provided by operating activities	***6,947,023***	***7,489,678***
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	2,500	33,000
Purchase of property, plant and equipment	(15,709,132)	(8,204,129)
Proceeds from sale of investments	135,940,051	218,582,236
Purchase of investments	(138,015,636)	(242,395,851)
Net cash used by investing activities	***(17,782,217)***	***(31,984,744)***
Cash flows from financing activities:		
Proceeds from notes and bonds payable	10,500,000	13,700,000
Repayments of note payable	(5,079,175)	(21,576)
Contributions and other revenues restricted for long-term purposes	6,235,024	8,885,246
Net cash provided by financing activities	***11,655,849***	***22,563,670***
Net increase (decrease) in cash and cash equivalents	***820,655***	***(1,931,396)***
Cash and cash equivalents at beginning of year	***1,032,625***	***2,964,021***
Cash and cash equivalents at end of year	***1,853,280***	***1,032,625***

See accompanying notes to consolidated financial statements.



Consolidated Statements

UB FOUNDATION, INC. AND AFFILIATES

Consolidated Statement of Activities

For the year ended June 30, 1999

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues and other additions:				
Gifts and bequests	$ 240,019	7,350,865	5,686,016	13,276,900
Private grants	—	242,165	—	242,165
Investment income	2,107,530	2,324,535	—	4,432,065
Net realized and unrealized gains on investments	5,705,789	2,434,854	—	8,140,643
Other revenues:				
Faculty practice	5,109,715	—	—	5,109,715
Rental	2,285,889	—	—	2,285,889
Continuing education	3,364,379	—	—	3,364,379
Computer store sales	2,505,790	—	—	2,505,790
Other projects, activities and services	13,601,338	152,250	—	13,753,588
Adjustment to annuity funds	—	(65,884)	323,685	257,801
Net assets released from restrictions	8,826,945	(8,826,945)	—	—
Total revenues and other additions	***43,747,394***	***3,611,840***	***6,009,701***	***53,368,935***
Expenses:				
University support:				
Academic divisions	22,808,543	—	—	22,808,543
Administrative divisions	7,152,008	—	—	7,152,008
Alumni Association	377,757	—	—	377,757
Officers' expense	133,948	—	—	133,948
Other	545,451	—	—	545,451
Total University support	***31,017,707***	***—***	***—***	***31,017,707***
Administration, development and other:				
Business office administration	1,066,495	—	—	1,066,495
University development	1,266,441	—	—	1,266,441
Property expense	1,914,873	—	—	1,914,873
Asset management fees	560,268	—	—	560,268
Total administration, development and other	***4,808,077***	***—***	***—***	***4,808,077***
Total expenses	***35,825,784***	***—***	***—***	***35,825,784***
Change in net assets	***7,921,610***	***3,611,840***	***6,009,701***	***17,543,151***
Net assets at beginning of year	***75,573,943***	***48,805,325***	***44,781,704***	***169,160,972***
Net assets at end of year	***83,495,553***	***52,417,165***	***50,791,405***	***186,704,123***

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

For the year ended June 30, 1998

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals (as adjusted, note 1(c))
Revenues and other additions:				
Gifts and bequests	$ 441,972	4,755,931	5,775,910	10,973,813
Private grants	762	448,482	—	449,244
Investment income	2,490,508	1,975,975	99,204	4,565,687
Net realized and unrealized gains on investments	8,286,668	6,585,734	—	14,872,402
Other revenues:				
Faculty practice	5,163,183	—	—	5,163,183
Rental	1,349,451	—	—	1,349,451
Continuing education	3,064,681	—	—	3,064,681
Computer store sales	3,208,269	—	—	3,208,269
Other projects, activities and services	12,895,728	961,008	—	13,856,736
Adjustment to annuity funds	—	67,122	2,195,514	2,262,636
Net assets released from restrictions	9,045,647	(9,045,647)	—	—
Total revenues and other additions	***45,946,869***	***5,748,605***	***8,070,628***	***59,766,102***
Expenses:				
University support:				
Academic divisions	21,291,044	—	—	21,291,044
Administrative divisions	7,022,748	—	—	7,022,748
Alumni Association	438,669	—	—	438,669
Officers' expense	145,194	—	—	145,194
Other	525,423	—	—	525,423
Total University support	***29,423,078***	***—***	***—***	***29,423,078***
Administration, development and other:				
Business office administration	1,503,262	—	—	1,503,262
University development	2,793,357	—	—	2,793,357
Property expense	1,410,954	—	—	1,410,954
Asset management fees	562,512	—	—	562,512
Total administration, development and other	***6,270,085***	***—***	***—***	***6,270,085***
Total expenses	***35,693,163***	***—***	***—***	***35,693,163***
Change in net assets	***10,253,706***	***5,748,605***	***8,070,628***	***24,072,939***
Net assets at beginning of year	***65,320,237***	***43,056,720***	***36,711,076***	***145,088,033***
Net assets at end of year	***75,573,943***	***48,805,325***	***44,781,704***	***169,160,972***

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) 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.; and UB Foundation Services, Inc., collectively referred to herein as the "Foundation." All significant intercompany balances and transactions have been eliminated in the consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles 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) Prior Period Adjustment

The Foundation maintains several charitable remainder unitrusts that require distributions of specified percentages of the fair value of trust assets determined annually to designated beneficiaries over the terms of the trust arrangements.

The Foundation determined in fiscal 1999 that the calculation of the liability to trust beneficiaries, representing the present value of expected payments to these individuals, did not properly consider historical changes in the fair value of the trust assets subsequent to trust inception.

The Foundation has adjusted the accompanying 1998 consolidated financial statements to give proper recognition to the liability to trust beneficiaries. Net assets at the beginning of fiscal 1998 have decreased from $147,392,329, as previously reported, to $145,088,033 with a corresponding increase of $2,304,296 in the annuity and life income obligations. The increase in net assets of the Foundation for the year ended June 30, 1998, as previously reported, decreased by $801,918 to $24,072,939 as a result of this correction.

(d) 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. 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 are 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. 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 restriction.

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

Temporarily restricted net assets of the Foundation are comprised principally of resources that must be expended to support specific academic divisions of the University.

Permanently Restricted

Permanently restricted net assets 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.

(e) Contributions

Contributions received, including unconditional promises to give, are generally recognized as revenues in the period received at their fair values.

(f) Investments

Investment securities are recorded at fair value.

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

Notes to Consolidated Financial Statements

unrestricted net assets, are 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 1999 and 1998 and accumulated amortization was $351,902 and $325,558 at June 30, 1999 and 1998, 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 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) Cash Equivalents
The Foundation classifies all short-term investment of operating cash as cash equivalents.

(k) Reclassifications to 1998 Financial Statements
Certain reclassifications have been made to the 1998 financial statements to conform to the 1999 presentation.

(2) Contributions

Contributions receivable, representing unconditional promises to give, as of June 30, 1999 and 1998, are summarized below:

	1999	1998
Unconditional promises expected to be collected in:		
Less than one year	$1,572,400	1,196,000
One year to five years	3,503,100	2,450,000
Over five years	92,400	60,000
	5,167,900	3,706,000
Less:		
Discount	(341,750)	(267,000)
Allowance for uncollectible receivables	(50,000)	(50,000)
	4,776,150	3,389,000

As of June 30, 1999, the Foundation had also received bequest intentions and revocable trusts that management estimates will exceed $45,000,000. 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, 1999 and 1998 are composed of the following:

	1999	1998
U.S. cash and cash equivalents	$3,718,056	8,940,715
U.S. fixed income	41,732,992	46,557,456
Non-U.S. fixed income	6,838,491	4,454,410
U.S. equity	91,453,051	82,480,335
Non-U.S. equity	28,073,526	21,336,090
Absolute return	15,971,391	13,826,739
Other	181,289	156,823
	187,968,796	177,752,568

(4) Property, Plant and Equipment

Investment in plant at June 30, 1999 and 1998 is composed of the following:

	1999	1998
Cost:		
Real property, principally rental property	$16,450,239	7,749,995
Less accumulated depreciation	3,965,966	3,418,508
	12,484,273	4,331,487
Office equipment	1,561,551	1,434,418
Less accumulated depreciation	1,241,044	1,166,577
	320,507	267,841
Real estate held for investment	366,500	211,000
Fine art collection	3,230,478	3,116,327
Construction in progress	14,665,173	8,069,545
	31,066,931	15,996,200

Notes to Consolidated Financial Statements

Construction in progress disclosed above consists of expenditures related to the ongoing UBF Housing student housing project. In June 1998, the first phase of the project was completed with the construction of a 115-townhouse unit student housing facility. During 1999, the second phase of the project commenced, which is comprised of a 155 four-bedroom apartment facility. Subsequent to year-end, UBF Housing entered into contracts totaling approximately $25 million for the construction of phase three of the project comprised of facilities that will house approximately 550 additional students. This third phase is expected to be completed in August 2000. A summary of the construction and permanent financing relating to the project is provided in note 5.

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.

FNUB, Inc., UBF Corporation 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, 1999 are as follows:

Year ending June 30	Amount
2000	$613,194
2001	49,682
2002	36,811
2003	15,977
2004	11,811
Thereafter	389,759

Total rental income was approximately $2,286,000 and $1,349,000 in 1999 and 1998, respectively.

(5) Notes and Bonds Payable

At June 30, 1999, UBF Housing was indebted for $10,500,000 of borrowings under an $18,000,000 revolving line of credit with a bank that provided short-term financing for phase two of the student housing project (see note 4). Borrowings under the line bear interest at LIBOR plus 50 basis points (approximately 5.5%) at June 30, 1999. Subsequent to year-end, all amounts borrowed under the line were paid off in full when phase two was financed on a long-term basis through the issuance of $21,835,000 of tax-exempt bonds by the Village of Kenmore Housing Authority.

Phase one of the student housing project was financed on a long-term basis through the issuance in December 1997 of $8,700,000 of tax-exempt bonds by the Village of Kenmore Housing Authority. Phase one is owned by the Authority and leased by UBF Housing under an agreement that provides for lease payments sufficient to service the bonds and transfer of ownership of the premises and related equipment to UBF Housing upon maturity. The bonds are payable in monthly installments of $47,140 through January 1, 2028 and bear interest at a rate of 4.95%. The bonds are secured by a first mortgage interest in phase one and an assignment of all leases, subleases and rentals relating to the facility.

At June 30, 1998, UBF Housing was indebted for $5,000,000 of borrowings under an $8,000,000 revolving line of credit with a bank that provided short-term financing for phase one of the student housing project. Borrowings under the line bore interest at LIBOR plus 50 basis points (approximately 6.2% at June 30, 1998). All amounts borrowed under the line were repaid in July 1998 with the proceeds of the bonds described above.

UBFI has a note payable to the Buffalo and Erie County Regional Development Corporation with an outstanding balance of $103,184 and $124,924 at June 30, 1999 and 1998, respectively. The note bears interest at 4% and is payable in monthly principal installments of $2,192 through February 2003, with the remaining principal balance due in March 2003.

Long-term debt matures by year as follows: 2000, $156,893; 2001, $165,192; 2002, $172,727; 2003, $180,649; 2004, $187,873 and $7,882,415, thereafter.

(6) Retirement Plan

The Foundation has a defined contribution retirement plan (contributory as to employees hired after January 1, 1977) 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 $769,420 and $727,030 in 1999 and 1998, 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.