



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

Consolidated Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 601
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, 2008 and 2007, 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, 2008 and 2007, 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

October 16, 2008

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

Consolidated Statements of Financial Position

June 30, 2008 and 2007

Assets	2008	2007
Accounts receivable, net of allowance for uncollectible accounts of \$373,000 in 2008 and \$366,000 in 2007	\$ 3,294,240	3,448,964
Contributions receivable (note 2)	17,303,573	8,203,537
Investments (note 3)	364,960,181	379,630,730
Property, plant, and equipment, net (note 4)	95,695,830	85,900,050
Fine art collection	8,264,053	6,616,060
Other assets	1,401,073	1,038,133
Total assets	<u>\$ 490,918,950</u>	<u>484,837,474</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 3,988,458	5,697,644
Accrued interest expense	1,854,849	1,890,783
Deferred rental revenue	723,437	749,270
Other accrued liabilities	3,184,309	2,926,488
Fair value of swaption (note 1j)	2,863,184	1,607,397
Demand note payable (note 5)	12,264,773	—
Long-term debt (note 5)	89,780,164	91,803,663
Funds held in custody for others (note 9)	10,917,748	11,324,066
Annuity and life income obligations	7,082,753	7,036,473
Total liabilities	<u>132,659,675</u>	<u>123,035,784</u>
Net assets:		
Unrestricted:		
Undesignated	15,458,803	17,200,632
Designated for specific operating units	87,822,164	83,482,347
Designated for investment purposes	56,664,735	72,078,503
Total unrestricted (note 1c)	<u>159,945,702</u>	<u>172,761,482</u>
Temporarily restricted (note 1c)	88,520,344	91,020,824
Permanently restricted (note 1c)	109,793,229	98,019,384
Total net assets	<u>358,259,275</u>	<u>361,801,690</u>
Total liabilities and net assets	<u>\$ 490,918,950</u>	<u>484,837,474</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Gifts, bequests, and private grants	\$ 4,123,121	17,092,766	13,441,911	34,657,798
Investment income	5,261,251	5,299,341	127,591	10,688,183
Net realized and unrealized losses on investments	(13,661,576)	(7,817,207)	—	(21,478,783)
Other revenues:				
Faculty practice	7,949,012	—	—	7,949,012
Rental (note 4)	17,166,089	—	—	17,166,089
Continuing education	1,939,203	—	—	1,939,203
Computer store sales	15,254,003	—	—	15,254,003
Uniform Data Systems for Medical Rehabilitation	6,777,118	—	—	6,777,118
Nuclear medicine	335,391	—	—	335,391
Center for the Arts	1,216,925	—	—	1,216,925
Student orientation	775,228	—	—	775,228
Other activities and services	13,095,448	—	—	13,095,448
Change in value of split interest agreements	—	44,973	(1,795,657)	(1,750,684)
Net assets released from restrictions	17,120,353	(17,120,353)	—	—
Total revenues, gains and other support	<u>77,351,566</u>	<u>(2,500,480)</u>	<u>11,773,845</u>	<u>86,624,931</u>
Expenses:				
Program expenses:				
Academic divisions	37,040,222	—	—	37,040,222
Administrative divisions	27,048,793	—	—	27,048,793
Fundraising expense	5,086,603	—	—	5,086,603
Total program expenses	<u>69,175,618</u>	<u>—</u>	<u>—</u>	<u>69,175,618</u>
Administration and other:				
Business office administration	2,283,121	—	—	2,283,121
Property expense	15,984,518	—	—	15,984,518
Asset management fees	2,724,089	—	—	2,724,089
Total administration and other	<u>20,991,728</u>	<u>—</u>	<u>—</u>	<u>20,991,728</u>
Total expenses	<u>90,167,346</u>	<u>—</u>	<u>—</u>	<u>90,167,346</u>
(Decrease) increase in net assets	(12,815,780)	(2,500,480)	11,773,845	(3,542,415)
Net assets at beginning of year	<u>172,761,482</u>	<u>91,020,824</u>	<u>98,019,384</u>	<u>361,801,690</u>
Net assets at end of year	<u>\$ 159,945,702</u>	<u>88,520,344</u>	<u>109,793,229</u>	<u>358,259,275</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, 2007

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Gifts, bequests, and private grants	\$ 3,683,321	10,540,738	5,127,387	19,351,446
Investment income	5,483,755	5,007,367	110,291	10,601,413
Net realized and unrealized gains on investments	23,652,424	15,492,990	—	39,145,414
Other revenues:				
Faculty practice	8,243,705	—	—	8,243,705
Rental (note 4)	15,932,474	—	—	15,932,474
Continuing education	2,107,426	—	—	2,107,426
Computer store sales	10,721,448	—	—	10,721,448
Uniform Data Systems for Medical Rehabilitation	7,110,701	—	—	7,110,701
Nuclear medicine	590,761	—	—	590,761
Center for the Arts	1,215,617	—	—	1,215,617
Student orientation	796,676	—	—	796,676
Other activities and services	11,087,042	—	—	11,087,042
Change in value of split interest agreements	314,572	—	2,844,996	3,159,568
Net assets released from restrictions	17,002,244	(17,002,244)	—	—
Total revenues, gains and other support	<u>107,942,166</u>	<u>14,038,851</u>	<u>8,082,674</u>	<u>130,063,691</u>
Expenses:				
Program expenses:				
Academic divisions	37,136,801	—	—	37,136,801
Administrative divisions	20,475,271	—	—	20,475,271
Fundraising expense	5,328,165	—	—	5,328,165
Total program expenses	<u>62,940,237</u>	<u>—</u>	<u>—</u>	<u>62,940,237</u>
Administration and other:				
Business office administration	2,157,274	—	—	2,157,274
Property expense	15,945,433	—	—	15,945,433
Asset management fees	1,894,863	—	—	1,894,863
Total administration and other	<u>19,997,570</u>	<u>—</u>	<u>—</u>	<u>19,997,570</u>
Total expenses	<u>82,937,807</u>	<u>—</u>	<u>—</u>	<u>82,937,807</u>
Increase in net assets	25,004,359	14,038,851	8,082,674	47,125,884
Net assets at beginning of year	<u>147,757,123</u>	<u>76,981,973</u>	<u>89,936,710</u>	<u>314,675,806</u>
Net assets at end of year	<u>\$ 172,761,482</u>	<u>91,020,824</u>	<u>98,019,384</u>	<u>361,801,690</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, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (3,542,415)	47,125,884
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,490,391	4,353,126
Net realized and unrealized (gains) losses on investments	21,478,783	(39,145,414)
Net actuarial (gain) loss on annuity obligations	1,750,684	(3,159,568)
Gifts of fine art	(1,647,993)	(85,549)
Contributions restricted for long-term purposes	(18,247,677)	(7,744,049)
Cash provided (used) by changes in:		
Contributions receivable	(2,398,024)	(1,631,038)
Accounts receivable	154,724	(248,116)
Other assets	(456,613)	126,274
Accounts payable	(1,709,186)	1,088,055
Accrued interest expense, deferred rental revenue, and other accrued liabilities	196,054	132,404
Funds held in custody for others	(406,318)	511,509
Net cash (used in) provided by operating activities	(337,590)	1,323,518
Cash flows from investing activities:		
Proceeds from swaption, net of issuance costs	—	1,909,754
Purchase of property, plant, and equipment	(14,163,747)	(725,027)
Proceeds from sale of investments	117,709,973	390,804,541
Purchase of investments	(124,108,064)	(400,824,149)
Net cash used in investing activities	(20,561,838)	(8,834,881)
Cash flows from financing activities:		
Proceeds from demand note payable	12,264,773	—
Repayments of long-term debt	(2,052,250)	(1,908,075)
Investments subject to annuity agreements	339,897	1,345,269
Payments and maturities of annuity obligations	(1,198,657)	(1,127,936)
Collections of contributions restricted for long-term purposes	11,545,665	9,202,105
Net cash provided by financing activities	20,899,428	7,511,363
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	\$ 5,120,855	4,948,574
Noncash investing activities:		
Gifts of fine art	1,647,993	85,549

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

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(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 consolidated 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 deemed necessary by management.

(e) Cash and Cash Equivalents

Cash and money market accounts held for investment purposes are included in investments on the consolidated statements 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.

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(g) *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.

(h) *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.

(i) *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 donation 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 3.8% and 5.6% at June 30, 2008 and 2007, respectively. The liabilities, reflected as annuity and life income obligations on the consolidated 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.

(j) *Derivatives*

On May 1, 2007, the Foundation entered into a swaption agreement associated with the Foundation's outstanding South Lake Village Bonds, issued through the Town of Amherst Industrial Development Agency. The Foundation entered into the transaction primarily to enhance its investment portfolio returns. The swaption agreement meets the definition of a derivative under Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities, as amended*, which requires that all derivative instruments be recorded in the consolidated statement of financial position at their respective fair values.

Under the terms of the swaption agreement, the Foundation has granted the swaption counterparty the option to obligate the Foundation to enter into an interest rate swap, effective on August 1, 2010 and maturing on August 1, 2030. The terms of the interest rate swap, if exercised by the

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counterparty, call for the Foundation, as the fixed rate payer, to pay 4.725% semiannually to the counterparty, who agrees, as the variable rate payer, to pay 67% LIBOR monthly to the Foundation.

The swaption contract settled on May 8, 2007, resulting in the Foundation receiving approximately \$1,910,000 in premium, net of approximately \$181,000 of issuance costs. The Foundation has recorded this contract at fair value in the consolidated statements of financial position. The change in fair value of the swaption is included in unrealized gains and losses on investments in the consolidated statements of activities.

(k) 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.

(l) Reclassifications

Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation.

(m) 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 \$88,853,000 and \$96,817,000 at June 30, 2008 and 2007, respectively. The carrying amounts of long-term debt of \$89,780,164 and \$91,803,663 at June 30, 2008 and 2007, respectively, are included in the consolidated statements of financial position.

(n) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. Management of the Foundation is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard is effective for fiscal years beginning after November 15, 2007. The standard provides entities the ability, on an elective basis, to report most financial assets and financial liabilities at fair value, with corresponding gains and losses recognized in changes in net assets. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Management is currently evaluating the impact of adopting SFAS No. 159 on its consolidated financial statements.

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In August 2008, the FASB issued FASB Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP No. 117-1 provides guidance on net asset classification of donor-restricted endowment funds of a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Additionally, FSP No. 117-1 requires all not-for-profit organizations to disclose significant incremental information about both donor-restricted and board-designated endowment funds whether or not an organization is subject to UPMIFA. FSP No. 117-1 is effective for fiscal years ending after December 15, 2008, with early adoption permitted. Management has chosen not to early adopt the FSP, and is currently evaluating the impact of adopting FSP No. 117-1 on its consolidated financial statements.

(2) Contributions

Contributions receivable, representing unconditional promises to give, as of June 30, 2008 and 2007, are summarized below:

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	\$ 8,036,170	4,647,059
One year to five years	9,291,484	4,025,972
Greater than five years	1,205,600	413,203
	18,533,254	9,086,234
Less:		
Discount	(1,029,681)	(682,697)
Allowance for uncollectible contributions receivable	(200,000)	(200,000)
	\$ 17,303,573	8,203,537

Discount rates utilized ranged from 1.25% to 6.60% based upon the rates reflected at the time of the gift.

As of June 30, 2008, the Foundation has also received bequest intentions and revocable trusts that management estimates will approximate \$53,000,000. 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.

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(3) Investments

Investments at June 30, 2008 and 2007 are composed of the following:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 11,031,933	8,153,431
Fixed income	90,245,741	87,289,793
U.S. equity	77,424,733	91,972,837
Non-U.S. equity	87,827,324	108,908,043
Real Estate Investment Trust	13,812,556	17,407,342
Venture capital/private equities	31,091,173	15,419,931
Hedge funds of funds	51,650,220	48,592,161
Other	1,876,501	1,887,192
	<u>\$ 364,960,181</u>	<u>379,630,730</u>

Investments, included above, held in trust under split interest agreements were approximately \$20,029,000 and \$21,706,000 at June 30, 2008 and 2007, respectively.

The Foundation has committed to invest approximately \$48,677,000 and \$40,434,000 in incremental venture/private equity investments at June 30, 2008 and 2007, respectively.

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

Property, plant, and equipment at June 30, 2008 and 2007 is composed of the following:

	<u>2008</u>	<u>2007</u>
Real property, principally rental property	\$ 127,503,867	113,465,437
Less accumulated depreciation	<u>(33,165,489)</u>	<u>(28,983,254)</u>
	94,338,378	84,482,183
Office equipment	1,552,649	1,490,905
Less accumulated depreciation	<u>(1,161,106)</u>	<u>(1,043,609)</u>
	391,543	447,296
Real estate held in trust under split interest agreements	965,909	970,571
	<u>\$ 95,695,830</u>	<u>85,900,050</u>

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 June 30, 2008 and 2007, respectively, and are included in designated net assets for specific operating units in the consolidated statements of financial position. No interest was capitalized in 2008 or 2007.

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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 \$487,016 in 2008 and \$402,235 in 2007.

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, 2008 are as follows:

	<u>Amount</u>
Year ending June 30:	
2009	\$ 1,328,963
2010	1,293,848
2011	887,563
2012	753,870
2013	367,712
Thereafter	283,461

Total revenue and expense related to UBF Housing was approximately \$14,868,000 and \$14,262,000, respectively, in 2008 and approximately \$14,303,000 and \$13,837,000, respectively, in 2007.

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(5) Debt Financing

A summary of long-term debt at June 30, 2008 and 2007 follows:

	2008	2007
Village of Kenmore Housing Authority bonds payable in monthly installments of \$47,516 through January 2028, including interest at 4.95%. (Flickinger Project)	\$ 7,098,714	7,305,964
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, net of discount of \$188,717 in 2008 and \$200,512 in 2007. (Hadley Village Project)	17,746,283	18,319,488
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, net of discount of \$164,364 in 2008 and \$171,835 in 2007. (South Lake Village Projects)	27,340,636	27,788,165
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, net of discount of \$87,248 in 2008 and \$91,014 in 2007. (Flint Village Projects)	24,482,752	25,003,986
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, net of discount of \$138,221 in 2008 and \$143,940 in 2007. (Creekside Village Projects)	13,111,779	13,386,060
	\$ 89,780,164	91,803,663

The Foundation complied with the terms of its debt covenants at June 30, 2008 and 2007.

Interest expense was \$5,084,921 and \$4,916,423 in 2008 and 2007, 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.

In November 2007, UBF obtained a \$25,000,000 operating line of credit used to purchase a building for the University. Borrowings under the line are payable on demand and bear interest at an adjusted LIBOR rate plus 0.15% (2.65% at June 30, 2008). There was \$12,264,773 outstanding under this line at June 30, 2008.

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June 30, 2008 and 2007

Aggregate maturities of long-term debt at June 30, 2008 are as follows:

2009	\$	2,175,141
2010		2,351,383
2011		2,478,202
2012		2,614,759
2013		2,748,648
Thereafter		<u>77,412,031</u>
	\$	<u><u>89,780,164</u></u>

(6) Guarantees

The Foundation has guaranteed the payment of certain employee mortgages under the University Home Loan Guaranty 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 \$5,000,000. 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 \$1,842,590 at June 30, 2008 and \$1,196,765 at June 30, 2007.

(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 \$1,408,917 and \$1,227,698 in 2008 and 2007, 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.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 addresses the accounting for uncertainties in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. There was no impact to the Foundation's consolidated financial statements as a result of the adoption of FIN 48.

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(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 consolidated statements of activities. These fees amounted to \$170,668 and \$155,897 in 2008 and 2007, respectively.

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

(10) Subsequent Event

Subsequent to June 30, 2008, there have been significant negative developments surrounding overall market liquidity, credit availability and collateral values. The results of these developments have led to broad declines in investment values. The Foundation maintains a diversified investment portfolio and although the total impact to net assets has not been determined, it is likely that certain individual securities may have been impacted from these events.