ALFRED UNIVERSITY

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

ALFRED UNIVERSITY

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KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

The Board of Trustees
Alfred University:

We have audited the accompanying statements of financial position of Alfred University (the University) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. 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 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 University'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 financial statements referred to above present fairly, in all material respects, the financial position of Alfred University as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 17, 2008

ALFRED UNIVERSITY

Statements of Financial Position

June 30, 2008 and 2007

Assets		**2008**	**2007**
Cash and cash equivalents	$	9,049,961	8,749,532
Student accounts receivable, net of allowance for doubtful accounts of $39,000 in 2008 and $65,000 in 2007		307,637	229,582
Inventories and other assets		1,304,862	1,366,448
Contributions receivable, net		14,520,060	21,185,679
Notes and other accounts receivable, net of allowance for doubtful accounts of $607,342 in 2008 and $630,136 in 2007		11,915,161	8,597,941
Investments, at fair value		115,863,942	120,620,225
Grounds, buildings, and equipment, net		87,198,812	83,949,933
Total assets	$	240,160,435	244,699,340
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	6,072,918	3,449,233
Deferred revenues and deposits		2,053,379	1,913,618
Notes payable		4,385	7,345
Asset retirement obligation		1,440,540	1,499,900
Postretirement benefit obligation		16,140,526	17,559,291
Annuities payable		1,421,172	1,283,464
Long-term debt		20,562,237	22,200,078
U.S. Government grants refundable		3,058,619	3,079,126
Total liabilities		50,753,776	50,992,055
Net assets:			
Unrestricted		107,515,650	110,288,967
Temporarily restricted		28,770,438	32,534,694
Permanently restricted		53,120,571	50,883,624
Total net assets		189,406,659	193,707,285
Total liabilities and net assets	$	240,160,435	244,699,340

See accompanying notes to financial statements.

ALFRED UNIVERSITY

Statement of Activities

Year ended June 30, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Student revenues:				
Tuition and fees	$ 44,529,699	—	—	44,529,699
Residence and dining	12,680,034	—	—	12,680,034
Less financial aid - institutional	(18,084,758)	—	—	(18,084,758)
Less financial aid - government and donor	(5,329,269)	—	—	(5,329,269)
Net student revenues	33,795,706	—	—	33,795,706
Federal grants and contracts	4,309,476	—	—	4,309,476
State of New York grants and contracts	16,636,587	—	—	16,636,587
Private gifts, grants, and contracts	1,559,445	2,128,533	—	3,687,978
Auxiliary enterprises – other	891,012	—	—	891,012
Educational activities	525,866	—	—	525,866
Other investment income	652,053	—	—	652,053
Other revenues	1,390,503	—	—	1,390,503
Long-term investment income and gains allocated for operations	5,614,775	—	—	5,614,775
Net assets released from restrictions for operating purposes	5,421,403	(5,421,403)	—	—
Total operating revenue	70,796,826	(3,292,870)	—	67,503,956
Operating expenses:				
Instruction and public service	28,627,774	—	—	28,627,774
Research	6,243,571	—	—	6,243,571
Academic support	6,484,184	—	—	6,484,184
Student services	9,185,442	—	—	9,185,442
Institutional support	10,758,890	—	—	10,758,890
Auxiliaries	7,598,265	—	—	7,598,265
Total operating expenses	68,898,126	—	—	68,898,126
Change in net assets from operating activities	1,898,700	(3,292,870)	—	(1,394,170)
Nonoperating activities:				
Long-term investment activities:				
Interest and dividends (net of investment fees)	1,258,298	—	—	1,258,298
Net realized and unrealized losses	(3,402,182)	—	—	(3,402,182)
Total long-term investment activities	(2,143,884)	—	—	(2,143,884)
Long-term investment income and gains allocated for operations	(5,614,775)	—	—	(5,614,775)
Capital gifts and grants	862,513	1,232,386	1,729,863	3,824,762
Other nonoperating activities, net	(979,228)	—	—	(979,228)
Postretirement benefit related changes other than net periodic pension cost	2,307,101	—	—	2,307,101
Change in valuation of annuities	—	(17,984)	(282,448)	(300,432)
Net assets released from restrictions for non-operating purposes	1,175,722	(1,175,722)	—	—
Change in donor intent	(279,466)	(510,066)	789,532	—
Change in net assets from nonoperating activities	(4,672,017)	(471,386)	2,236,947	(2,906,456)
Change in net assets	(2,773,317)	(3,764,256)	2,236,947	(4,300,626)
Net assets at beginning of year	110,288,967	32,534,694	50,883,624	193,707,285
Net assets at end of year	$ 107,515,650	28,770,438	53,120,571	189,406,659

See accompanying notes to financial statements.

ALFRED UNIVERSITY

Statement of Activities

Year ended June 30, 2007

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Student revenues:				
Tuition and fees	$ 41,982,778	—	—	41,982,778
Residence and dining	12,198,023	—	—	12,198,023
Less financial aid - institutional	(17,685,984)	—	—	(17,685,984)
Less financial aid - government and donor	(4,981,696)	—	—	(4,981,696)
Net student revenues	31,513,121	—	—	31,513,121
Federal grants and contracts	4,581,353	—	—	4,581,353
State of New York grants and contracts	15,090,628	—	—	15,090,628
Private gifts, grants, and contracts	1,639,478	775,638	—	2,415,116
Auxiliary enterprises – other	888,904	—	—	888,904
Educational activities	460,902	—	—	460,902
Other investment income	442,664	—	—	442,664
Other revenues	1,575,680	—	—	1,575,680
Long-term investment income and gains allocated for operations	5,343,477	—	—	5,343,477
Net assets released from restrictions for operating purposes	3,663,527	(3,663,527)	—	—
Total operating revenue	65,199,734	(2,887,889)	—	62,311,845
Operating expenses:				
Instruction and public service	28,030,100	—	—	28,030,100
Research	4,872,880	—	—	4,872,880
Academic support	6,677,450	—	—	6,677,450
Student services	9,004,345	—	—	9,004,345
Institutional support	9,740,110	—	—	9,740,110
Auxiliaries	7,436,398	—	—	7,436,398
Total operating expenses	65,761,283	—	—	65,761,283
Change in net assets from operating activities	(561,549)	(2,887,889)	—	(3,449,438)
Nonoperating activities:				
Long-term investment activities:				
Interest and dividends (net of investment fees)	1,172,688	—	—	1,172,688
Net realized and unrealized gains	19,575,163	—	—	19,575,163
Total long-term investment activities	20,747,851	—	—	20,747,851
Long-term investment income and gains allocated for operations	(5,343,477)	—	—	(5,343,477)
Capital gifts and grants	49,075	1,448,570	2,782,008	4,279,653
Other nonoperating activities, net	(214,028)	—	—	(214,028)
Effect of adoption of SFAS No. 158	(672,309)	—	—	(672,309)
Change in valuation of annuities	—	(14,820)	106,168	91,348
Net assets released from restrictions for non-operating purposes	3,430,298	(3,430,298)	—	—
Change in donor intent	—	(69,120)	69,120	—
Change in net assets from nonoperating activities	17,997,410	(2,065,668)	2,957,296	18,889,038
Change in net assets	17,435,861	(4,953,557)	2,957,296	15,439,600
Net assets at beginning of year	92,853,106	37,488,251	47,926,328	178,267,685
Net assets at end of year	$ 110,288,967	32,534,694	50,883,624	193,707,285

See accompanying notes to financial statements.

ALFRED UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	(4,300,626)	15,439,600
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation expense		5,287,799	5,393,900
Loss on disposal of fixed assets		74,567	392,357
Effect of adoption of SFAS No. 158		—	672,309
Postretirement benefit related changes other than net periodic pension cost		(2,307,101)	—
Net realized and unrealized gains on investments		3,402,182	(19,575,163)
Contributions and grants received for long-term investment, net		(3,824,762)	(4,279,653)
Change in assets and liabilities that provide (use) cash:			
Student accounts receivable, net		(78,055)	(17,507)
Contributions receivable, net		6,665,619	1,041,682
Inventories and other assets		61,586	301,163
Notes and other accounts receivable, net		(3,317,220)	(182,229)
Accounts payable and accrued expenses		2,623,685	998,257
Deferred revenues and deposits		139,761	40,525
Fixed asset retirement obligation		(59,360)	(145,100)
Postretirement benefit obligation		888,336	964,397
Net cash provided by operating activities		5,256,411	1,044,538
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(8,611,245)	(7,721,459)
Purchases of investments		(44,390,308)	(60,261,405)
Proceeds from the sales and maturities of investments		45,744,409	61,920,909
Net cash used in investing activities		(7,257,144)	(6,061,955)
Cash flows from financing activities:			
Principal repayments of long-term indebtedness		(1,637,841)	(1,635,345)
Contributions and grants received for long-term investment, net		3,824,762	4,279,653
Principal repayments of notes payable		(2,960)	(2,960)
Increase (decrease) in annuities payable		137,708	(514,050)
Decrease in U.S. Government grants refundable		(20,507)	(70,387)
Net cash provided by financing activities		2,301,162	2,056,911
Net increase (decrease) in cash and cash equivalents		300,429	(2,960,506)
Cash and cash equivalents – beginning of year		8,749,532	11,710,038
Cash and cash equivalents – end of year	$	9,049,961	8,749,532
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest on long-term debt	$	1,256,616	1,242,702

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of the University

Alfred University (the University) is a not-for-profit, coeducational institution of higher education located in Alfred, New York. The University is comprised of the privately endowed colleges of Liberal Arts and Sciences, Engineering and Business, as well as two statutory units – the School of Art and Design and selected programs within the School of Engineering – that the University administers under a contract with the State University of New York (the State). The New York State College of Ceramics (College of Ceramics) is partially funded directly by the State. The New York State direct funding is included in the University's financial statements.

The University obtains reimbursement for expenses associated with support and management of the College of Ceramics under a "Unified Contract" with the State. The State owns the majority of buildings which house the College of Ceramics. However, because the University exercises control of those buildings through an agreement with the State, those buildings are included in the University's net investment in grounds, building, and equipment.

(b) Basis of Presentation

Under financial reporting standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations, and are generally available for support of the University's activities, with certain limitations, as follows:

- Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required balances with trustees under long-term debt agreements, and matching funds under student loan programs of the Federal Government.
- The board of trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as endowment, for grounds, buildings, and equipment purposes, and for other specific operating purposes.
- Investment income, as well as gains and losses on investments, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. When such restrictions exist, investment income, gains, or losses are reported as temporarily or permanently restricted, except when the restrictions are met in the same fiscal year in which the income or gains are earned, in which case, the income and gains are reported within the unrestricted category.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) that do not occur within the same period as revenue recognition are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the University is permitted to use or expend part or all of the income and gains derived from the donated assets, restricted only by the donors' wishes.

(c) Operations

The statements of activities present the changes in net assets of the University from operating activities and from nonoperating activities. Operating revenues and expenses relate primarily to educational programs and research activities provided by the University. Utilization of investment income and gains on long-term investments held for endowment and similar purposes under the University's total return spending policy is considered operating revenue.

Nonoperating activities consist primarily of investment income and appreciation from long-term investments in excess of amounts utilized for operations, as well as gifts received that are restricted by donors or designated by the University for long-term purposes, and postretirement benefit related changes other than net periodic benefit costs.

(d) Cash and Cash Equivalents

Cash and cash equivalents of $9,049,961 and $8,749,532 at June 30, 2008 and 2007, respectively, consist of amounts on deposit with financial institutions, short term investments with maturities of three months or less, and other highly liquid investments, primarily cash management funds.

(e) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, student and other accounts receivable, accounts payable, and accrued expenses approximate fair value due to the short maturities of these instruments. Contributions receivable are reported at their net present value. The fair value of notes receivable from students under Federal Government student financial aid programs approximates their carrying value, although such loans are not salable and can only be assigned to the Federal Government.

The fair value of the University's long-term indebtedness is approximately $20,819,919 and $22,435,917 at June 30, 2008 and 2007, respectively. The estimated fair value of long-term debt is based on quoted market prices for similar issues.

(f) Investments

Investments are reported at their fair values. Marketable securities are valued at the last reported sale price on the last business day of the fiscal year. Quotations are obtained from the national securities exchanges or, in cases where securities are not listed on any of the exchanges, from brokerage firms. The alternative investments are carried at estimated fair values as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term, and such changes could materially affect the amounts reported in the financial statements.

The University has interpreted New York State law to allow the spending of income and gains on investments of permanently restricted net assets, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. State law allows the University to appropriate and spend such income and gains as is prudent, considering such factors as the University's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. 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 upon the presence or absence of donor stipulations as to their use.

(g) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

(h) Grounds, Buildings, and Equipment

Grounds, buildings, and equipment are stated at cost or, in the case of gifts, at fair value at the date of donation. Grounds, buildings, and equipment related to the College of Ceramics, paid for and owned by the State, are recognized in the accompanying financial statements. Debt and debt service related to borrowings of the State for the construction and renovation of plant for the College of Ceramics are not included in the financial statements, as they are not obligations of the University,

Depreciation expense is computed on a straight-line basis over the following estimated useful lives in years:

	University	College of ceramics
Buildings	40	40
Building improvements	10	10 to 40
Equipment	5	5 to 7

(i) Revenue Recognition

Tuition revenue for the fall, spring, and summer sessions are generally recognized in the fiscal year to which it is applicable.

Included in deferred revenues and deposits on the statement of financial position is an advance payment from a vendor. On July 1, 2005 the University entered into a contract with a dining service vendor to provide services to the University. In lieu of rent, the contract provided for the vendor to make improvements to University dining facilities totaling $975,379. The contract provides for a pro-rata reimbursement of these improvements to the vendor if the University cancels the contract before the contract expires. Annual amortization of this obligation is $139,340 and is reflected in other revenues on the statement of activities. The remaining deferred revenue was $557,359 and $696,699 at June 30, 2008 and 2007, respectively.

(j) Contributions

Contributions, including unconditional promises, are recognized as revenues in the period received or pledged. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

(k) Grants and Contracts

Revenue from grants and contracts, primarily for research programs, is generally recognized as earned, that is, as the related costs are incurred under the grant or contract agreements. Amounts received in advance are reported as deferred revenues,

Grants and contracts awarded to the University are subject to audit by the various sponsoring agencies. Indirect costs recovered on grants and contracts are recorded at rates established by the University with the Federal Government, or predetermined by the nonfederal sponsor. Indirect cost rates for government grants and contents are subject to audit, and subsequent final settlements are recorded as current period adjustments. Management believes the impact of any future settlements to be immaterial to the financial statements.

(l) U.S. Government Grants Refundable

Funds provided by the United States Government, primarily under the Federal Perkins Student Loan program, are loaned to qualified students and may be reloaned after cash collections. These funds are potentially refundable to the government and are recognized as a liability in the accompanying statements of financial position.

(m) Benefit Plans

The University's defined contribution retirement plan covers all regular full-time employees and some part-time employees of the University, and College of Ceramics employees whose compensation is not funded by the State of New York.

The University provides certain postretirement health care and life insurance benefits to retired employees and their eligible dependents under a defined benefit plan covering substantially all retirees and employees hired before July 1, 1998. The University funds such benefit costs principally on a pay-as-you-go basis.

(n) Tax-Exempt Status

The Internal Revenue Service has determined and informed the University by a letter dated May 28, 1971 that the University is tax exempt on related income, under the appropriate sections of the Internal Revenue Code. Management does not believe that circumstances after the date of the Internal Revenue Service determination letter will affect the tax exempt status of the University.

Effective July 1, 2007, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN 48 had no impact on the University's financial statements.

(o) Use of Estimates

Management of the University made a number of estimates relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in accordance with accounting principles generally accepted in the United States of America. Actual results could differ from estimates.

(Continued)

(2) Net Assets

Unrestricted net assets consist of the following at June 30:

		2008	2007
Available for operating needs	$	(20,141,884)	(17,892,759)
Student loan programs		5,056,285	4,388,817
Funds functioning as endowment and accumulated gains on permanent endowment whose income is unrestricted		55,969,059	64,248,890
Investment in plant, net of long-term debt		66,632,190	59,544,019
	$	107,515,650	110,288,967

Temporarily restricted net assets are restricted for construction projects, mission activity and scholarships. Temporarily restricted net assets consist of the following at June 30:

		2008	2007
Amounts restricted by donors for specific purposes	$	14,883,010	12,584,218
Contributions receivable for specific purposes		13,887,428	19,950,476
	$	28,770,438	32,534,694

Permanently restricted net assets are restricted for endowments the income of which is expendable to support instruction, scholarships and other. Permanently restricted net assets consist of the following at June 30:

		2008	2007
Permanent endowments	$	52,487,939	49,648,421
Contributions receivable for long term investment endowments		632,632	1,235,203
	$	53,120,571	50,883,624

(3) Investments

Investments consist of the following at June 30:

		2008 Fair value	2007 Fair value
Cash and cash equivalents	$	1,194,169	4,658,321
Fixed income securities		15,045,242	16,177,738
Common stocks		7,097,487	11,005,071
Mutual Funds		58,863,273	53,582,845
Limited partnerships		33,259,479	34,763,950
Real estate		404,292	432,300
	$	115,863,942	120,620,225

Included above in the table of investments are approximately $33,700,000 and $35,200,000, as of June 30, 2008 and 2007, respectively, of investments whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based upon information provided by the fund managers or the general partners.

Total return, on endowment investments only, consists of the following elements at June 30:

		2008	2007
Interest income	$	1,550,212	1,418,272
Realized and unrealized (losses) gains, net		(2,813,014)	19,416,394
Fees		(445,375)	(423,082)
	$	(1,708,177)	20,411,584

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. During 2008 and 2007, University policy permitted the use of total return (income and appreciation) from its endowment resources at a rate of approximately 6% of the average quarterly market value of its investment portfolio for the most recent three calendar years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment and similar net assets for operating purposes. In addition, endowment investment appreciation may be utilized, with trustee approval, for other purposes.

Investment fees during 2008 and 2007 were $463,509 and $439,992, respectively, which are primarily netted against interest and dividends in the accompanying statement of activities.

(Continued)

(4) Grounds, Buildings, and Equipment

The University's investment in grounds, buildings, and equipment at June 30 is as follows:

		2008	2007
Grounds	$	1,122,832	892,247
Buildings and improvements		124,981,443	119,830,715
Equipment, library books, and museum pieces		42,448,230	40,403,433
Construction in progress		7,389,906	6,432,753
		175,942,411	167,559,148
Less accumulated depreciation		88,743,599	83,609,215
Net University grounds, buildings, and equipment	$	87,198,812	83,949,933

Included in the above amounts are physical plant assets, specifically relating to the College of Ceramics of $27,778,362 and $27,999,158, net of related depreciation, at June 30, 2008 and 2007, respectively.

(5) Notes Payable

Notes payable consists of the following at June 30:

	Date issued	Maturity	Original issue	2008	2007
Pitney Bowes:					
Mailing System Capital Lease	2006	2010	11,786	$ 4,385	$ 7,345
				$ 4,385	$ 7,345

In January 2006, the University entered into a capital lease transaction with an original cost of $11,786. The University makes quarterly payments of $740 on the lease which bears 0% interest. The net book value of the lease at June 30, 2008 is $4,385.

(6) Asset Retirement Obligation

The University has asset retirement obligations (AROs) arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings are renovated or disposed of. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The following table presents the activity for the AROs for the year ended June 30, 2008 and 2007:

	2008	2007
Balance at beginning of year	$ 1,499,900	$ 1,645,000
Additional obligations incurred	—	—
Obligations settled in current period	(144,260)	(230,000)
Accretion expense	84,900	84,900
Balance at the end of year	$ 1,440,540	$ 1,499,900

(7) Long-Term Debt

Long-term debt consists of the following at June 30:

	Date issued	Maturity	Interest rate	Original issue	2008	2007
Principal payable:						
Civic Facility leasehold (a)	1998	2028	4.25% to 5.25%	23,035,000	$ 14,905,000	15,855,000
Mortgage notes, bank loan, and bonds payable (b):						
U.S. Department of Housing and Urban Development:						
Openhym Hall	1967	2017	3.00%	1,000,000	340,000	370,000
U.S. Department of Education:						
Science Center	1967	2007	3.00%	1,012,000	—	47,000
Bath National Bank Boiler Loan	2003	2008	4.25%	500,000	—	17,225
Foster Lake Mortgage	2003	2018	4.75%	160,163	111,706	121,108
Community Bank – Lambda Mortgage	2004	2014	6.50%	165,000	100,640	115,945
Chase Bank – Administrative Systems Loan	2006	2016	5.72%	3,500,000	2,829,159	3,179,163
Community Bank – Construction Loan	2006	2016	6.50%	2,700,000	2,275,732	2,494,637
					$ 20,562,237	22,200,078

(a) Principal Payable – Civic Facility Leasehold, 1998

Under an agreement with the Allegany County Industrial Development Agency (ACIDA), serial and term bonds were issued for the purpose of refunding the ACIDA Civic Facility Revenue Bonds, Series 1991 and Dormitory Authority of the State of New York Series B Bonds, and for the purposes of financing the installation of fiber optic cable throughout the University's campus and making other improvements to existing buildings. Payment of principal and interest requirements on the bonds is guaranteed by the University.

The original bonds were used to finance construction, acquisition, and furnishing of the Powell Campus Centre, Saxon Inn, and the Ford Street Apartments at the University. Title in the projects are vested with ACIDA under an installment sales agreement, which reverts to the University when the bonds are retired in 2028.

(b) Mortgage Notes, Bank Loan, and Bonds Payable

Bonds issued by the U.S. Department of Housing and Urban Development Agency and the U.S. Department of Education are general obligations of the University, collateralized by first mortgages on the facilities constructed and by pledges of gross or net revenues of various facilities. The Openhymn Hall Bond of 1967 is collateralized by a pledge of a first lien on student tuition in the amount of $30,000 each year.

In September 2002, the University entered into a financing agreement with Bath National Bank totaling $500,000 to finance the replacement of boilers at the University. The loan has a New York State Energy Research and Development Authority Subsidized rate of 4% below prime (5% at June 30, 2008).

In September 2002, the University entered into a mortgage agreement for the purchase of property at Foster Lake. The agreement is with the former owner of the property and bears an interest rate of 4.75% per annum.

In October 2003, the University entered into a mortgage agreement for the purchase of property formerly owned by Kappa Sigma Zeta of Lambda Chi. The mortgage bears an interest rate of 6.50% per annum.

In January 2006, the University refinanced its notes payable with JPMorgan Chase that were obtained to finance the implementation of its new enterprise-wide information system, SCT Banner. The loan bears interest at LIBOR (2.78% at June 30, 2008) plus 0.5%. The University entered into an interest rate swap agreement with respect to the loan as described in note 8.

In January 2006, the University entered into a financing agreement with Community Bank to provide funds for renovation, closeout of architect costs and deferred maintenance projects. The loan bears interest at a fixed rate of 6.5% per annum.

The following is a schedule of principal payments of the aforementioned debt for the years ending June 30:

		Principal
2009	$	1,637,738
2010		1,705,042
2011		1,778,598
2012		1,848,294
2013		1,159,174
Thereafter		12,433,391
	$	20,562,237

(8) Interest Rate Swap Agreement

To effectively convert the JPMorgan Chase long-term debt from a variable rate to a fixed rate, the University entered into an interest rate swap agreement with JPMorgan Chase. The interest rate swap agreement has a notional amount of $2,829,159 and $3,179,163 at June 30, 2008 and 2007, respectively, and effectively fixed the interest rate at 5.72%. The interest rate swap agreement matures on July 1, 2011. The interest rate swap had a fair value of $(110,652) and $6,851 at June 30, 2008 and 2007, respectively, and is included in accounts payable and accrued expenses, and inventory and other assets on the statement of financial position at June 30, 2008 and 2007, respectively. The effect of recording this liability or asset is reflected as an increase or reduction to interest expense in the statement of activities for the years ended June 30, 2008 and 2007. The University is billed monthly by the trustee for the variable rate interest charge. If the monthly interest charge at the variable rate is less than the fixed rate, then the University pays JPMorgan Chase the difference between the variable rate calculated interest charge for the month and the fixed rate of 5.72%. If the monthly interest charge at the variable rate is greater than the fixed rate, then JPMorgan Chase pays the University the difference between the fixed rate of 5.72% and the variable rate calculated interest charge for the month.

Subsequent to June 30, 2008, the financial markets in the United States have experienced significant turmoil. The continued effectiveness of the swap will be contingent upon the ability of the counterparty to meet its contractual obligations under the agreement.

(9) Lines of Credit

The University had a $2,000,000 line of credit with a bank dated July 3, 2006. Outstanding balances are unsecured with interest payable monthly at prime (5% at June 30, 2008 and 8.25% at June 30, 2007). The University had no outstanding balance as of June 30, 2008 and 2007.

(10) Contributions

Contributions receivable to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. No allowance for uncollectible contributions receivable is provided, based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Total costs incurred for fund raising activities are recorded as expense when incurred and were $1,986,855 and $1,689,708 for the years ended June 30, 2008 and 2007, respectively.

Contributions receivable, net, are summarized as follows at June 30:

Unconditional promises expected to be collected in:

		2008	2007
Less than one year	$	4,096,658	4,660,457
One year to five years		12,491,228	13,488,839
Over five years		—	7,470,287
		16,587,886	25,619,583
Less unamortized discount (4.8% –6%)		(2,067,826)	(4,433,904)
	$	14,520,060	21,185,679

(11) Benefit Plans

The University makes annual contributions to its defined contribution plan which are immediately vested for the benefit of the participants. For employees covered under the New York State pension plan, the University makes contributions to the State Retirement System and other fringe benefit costs which are reimbursed by the State.

Total retirement plan expense for the Endowed Colleges for the years ended June 30, 2008 and 2007 were $1,211,215 and $1,168,756, respectively. Retirement plan expense for the statutory college was $606,895 for the year ended June 30, 2008.

The University offers postretirement medical and life insurance benefits to its retirees and their spouses. The expected costs of these benefits are recognized when they are earned. Current and prior year costs are allocated among the expenses of general operations.

The University uses a June 30 measurement date for its plan.

The University adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting of Defined Pension and other Postretirement Benefit Plans* (FAS 158) effective for fiscal year ended June 30, 2007. FAS 158 required recognition of the funded status of the University's post-retirement plan on the statement of financial position. The loss of $672,309 related to recording the funded status as of June 30, 2007 was presented as a separate line item within nonoperating activities on the statement of activities.

A summary of the postretirement benefit plan's funded status and amounts recognized in the University's statements of financial position for the years ended June 30 is as follows:

		2008	2007
Change in benefit obligation:			
Benefit obligation at beginning at year	$	17,559,291	17,297,840
Service cost		334,039	378,138
Interest cost		1,075,013	1,062,449
Participant contributions		83,822	77,368
Actuarial gain		(2,307,101)	(697,996)
Benefits paid		(604,538)	(558,508)
Benefit obligation, end of year		16,140,526	17,559,291
Change in Plan assets:			
Fair value of assets, beginning of year		—	—
Employer contribution		520,716	481,140
Participant contribution		83,822	77,368
Benefits paid		(604,538)	(558,508)
Fair value of assets, end of year		—	—
Reconciliation of statements of financial position liability:			
Funded status	$	(16,140,526)	(17,559,291)

Amounts recorded in unrestricted net assets as of June 30 not yet amortized as components of net periodic benefit costs are as follows:

		2008	2007
Unamortized prior service costs	$	83,849	90,299
Unamortized actuarial (gain) loss		(2,390,950)	582,010
Amount recognized as an (increase) decrease in unrestricted net assets	$	(2,307,101)	672,309

The amortization of the above items expected to be recognized in net periodic costs for the year ended June 30, 2009 is $(1,564.)

A summary of the components of net periodic benefit cost for the years ended June 30, 2008 and 2007 presented below:

		2008	2007
Components of net periodic benefit (income) cost:			
Service cost	$	334,039	378,138
Interest cost		1,075,013	1,062,449
Net amortization		(2,827,817)	196,119
Net periodic benefit (income) cost	$	(1,418,765)	1,636,706

Assumptions

A summary of the weighted average assumptions used to determine the benefit obligations at June 30 is presented below:

	2008	2007
Discount rate	6.75%	6.25%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	N/A	N/A

For measurement purposes, a 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007-2008 for healthcare. The rate was assumed to gradually decrease to 5% by 2012 and remain at that level, thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in health care cost trend rates would have the following effects:

		2008		2007	
		1-percentage point increase	1-percentage point decrease	1-percentage point increase	1-percentage point decrease
Effect on total of service and interest cost components	$	190,655	(156,311)	218,419	(177,460)
Effect on postretirement benefit obligation	$	2,140,274	(1,771,255)	2,451,937	(2,014,793)

Cash Flows Contributions

The University expects to contribute approximately $684,000 to its postretirement benefit plan during the year ended June 30, 2009.

(Continued)

Estimated Future Benefit Payments

The following benefit payments net of participant contributions, which reflect expected future service, as appropriate, are expected to be paid:

	Gross benefit payments (before subsidy)	Subsidy
2009	$ 761,276	$ 77,046
2010	814,421	88,720
2011	877,678	101,111
2012	952,958	110,191
2013	999,434	119,723
2014-2017	6,088,212	770,448

(12) Subsequent Events

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 University invests in various diversified industries and types of securities, and these securities may have been impacted, perhaps significantly, from these events.