

UTICA COLLEGE

For the Years Ended
May 31, 2006 and 2005

FINANCIAL STATEMENTS

UTICA COLLEGE
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Independent Auditor's Report

Board of Trustees
Utica College

We have audited the accompanying statements of financial position of Utica College (a nonprofit organization) as of May 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College'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 audits 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 financial statements referred to above present fairly, in all material respects, the financial position of Utica College as of May 31, 2006 and 2005, 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.

D'Arcangelo + Co. LLP

October 11, 2006

Utica, New York

UTICA COLLEGE
STATEMENTS OF FINANCIAL POSITION
May 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 1,991,405 | \$ 2,535,666 |
| Tuition and Fees Receivable, Net | 3,556,937 | 3,392,768 |
| Grants and Other Operating Receivables | 611,481 | 260,414 |
| Unconditional Promises to Give | 95,018 | 574,893 |
| Inventories | 31,862 | 37,328 |
| Other Deferred and Prepays | <u>302,610</u> | <u>292,939</u> |
| Total Current Assets | <u>6,589,313</u> | <u>7,094,008</u> |
| Long-Term and Restricted Assets | | |
| Restricted Cash - Construction | 2,456,046 | 279,143 |
| Deposits with Bond Trustees | 6,709,206 | 7,506,082 |
| Perkins and Gate Loans Receivable, Net | 2,547,372 | 2,027,219 |
| Unconditional Promises to Give | 180,154 | 222,762 |
| Investments, at Market | <u>17,083,471</u> | <u>17,306,824</u> |
| Total Long-Term and Restricted Assets | <u>28,976,249</u> | <u>27,342,030</u> |
| Capital Related Assets | | |
| Construction in Progress | 611,134 | 4,055,097 |
| Land, Buildings, and Equipment, Net | 52,691,487 | 45,436,733 |
| Bond Issuance Costs, Net | <u>1,402,852</u> | <u>432,549</u> |
| Total Capital Related Assets | <u>54,705,473</u> | <u>49,924,379</u> |
| Total Assets | <u>\$ 90,271,035</u> | <u>\$ 84,360,417</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Liabilities | \$ 3,636,314 | \$ 2,699,516 |
| Deposits and Deferred Revenue | 3,676,171 | 2,797,744 |
| Current Portions of Long-Term Debt | <u>446,000</u> | <u>454,000</u> |
| Total Current Liabilities | <u>7,758,485</u> | <u>5,951,260</u> |
| Long-Term Liabilities | | |
| Charitable Trust Obligations | 301,527 | 311,989 |
| Federal Student Loans Deferred | 1,041,057 | 1,081,305 |
| Bond Premium, Net | 653,362 | 498,365 |
| Postretirement Liabilities | 4,997,019 | 4,490,339 |
| Long-Term Debt | <u>35,207,367</u> | <u>31,353,368</u> |
| Total Long-Term Liabilities | <u>42,200,332</u> | <u>37,735,366</u> |
| Net Assets | | |
| Unrestricted | 21,283,421 | 23,616,003 |
| Temporarily Restricted | 9,494,465 | 7,912,325 |
| Permanently Restricted | <u>9,534,332</u> | <u>9,145,463</u> |
| Total Net Assets | <u>40,312,218</u> | <u>40,673,791</u> |
| Total Liabilities and Net Assets | <u>\$ 90,271,035</u> | <u>\$ 84,360,417</u> |

The Accompanying Notes are an Integral Part of These Financial Statements.

UTICA COLLEGE
STATEMENTS OF ACTIVITIES
For the Year Ended May 31, 2006
(With Comparative Totals for the Year Ended May 31, 2005)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
|--|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | | | | 2006 | 2005 |
| Revenue, Gains, and Other Support | | | | | |
| Tuition and Fees | \$ 51,615,304 | \$ 0 | \$ 0 | \$ 51,615,304 | \$ 47,489,051 |
| Less: Scholarship Aid | <u>(18,431,514)</u> | <u>0</u> | <u>0</u> | <u>(18,431,514)</u> | <u>(17,436,182)</u> |
| Net Tuition and Fees | 33,183,790 | 0 | 0 | 33,183,790 | 30,052,869 |
| Government Grants and Contracts | 2,618,473 | 0 | 0 | 2,618,473 | 3,995,414 |
| Private Gifts and Grants | 613,972 | 1,343,106 | 291,507 | 2,248,585 | 2,872,973 |
| Investment Return | 602,260 | 1,141,040 | 85,897 | 1,829,197 | 3,031,184 |
| Change in Value of Annuity Obligations | 0 | 0 | (23,688) | (23,688) | (26,588) |
| Sales and Service of Auxiliary Enterprises | 7,166,958 | 0 | 0 | 7,166,958 | 6,649,560 |
| Other Sources | <u>690,273</u> | <u>0</u> | <u>0</u> | <u>690,273</u> | <u>742,085</u> |
| Total Revenue and Gains | 44,875,726 | 2,484,146 | 353,716 | 47,713,588 | 47,317,497 |
| Net Assets Released from Restrictions | <u>866,853</u> | <u>(902,006)</u> | <u>35,153</u> | <u>0</u> | <u>0</u> |
| Total Revenue, Gains, and Other Support | <u>45,742,579</u> | <u>1,582,140</u> | <u>388,869</u> | <u>47,713,588</u> | <u>47,317,497</u> |
| Expenses | | | | | |
| Educational and General | | | | | |
| Instructional and Research | 17,077,393 | 0 | 0 | 17,077,393 | 14,982,091 |
| Academic Support | 5,172,810 | 0 | 0 | 5,172,810 | 4,766,367 |
| Student Services | 9,383,513 | 0 | 0 | 9,383,513 | 8,345,714 |
| Institutional Support | <u>11,539,512</u> | <u>0</u> | <u>0</u> | <u>11,539,512</u> | <u>10,771,253</u> |
| Total Educational and General | 43,173,228 | 0 | 0 | 43,173,228 | 38,865,425 |
| Auxiliary Enterprises | <u>4,901,933</u> | <u>0</u> | <u>0</u> | <u>4,901,933</u> | <u>4,334,464</u> |
| Total Expenses | <u>48,075,161</u> | <u>0</u> | <u>0</u> | <u>48,075,161</u> | <u>43,199,889</u> |
| Increase (Decrease) in Net Assets | (2,332,582) | 1,582,140 | 388,869 | (361,573) | 4,117,608 |
| Net Assets, Beginning of Year | <u>23,616,003</u> | <u>7,912,325</u> | <u>9,145,463</u> | <u>40,673,791</u> | <u>36,556,183</u> |
| Net Assets, End of Year | <u>\$ 21,283,421</u> | <u>\$ 9,494,465</u> | <u>\$ 9,534,332</u> | <u>\$ 40,312,218</u> | <u>\$ 40,673,791</u> |

The Accompanying Notes are an Integral Part of These Financial Statements.

UTICA COLLEGE
STATEMENTS OF ACTIVITIES
For the Year Ended May 31, 2005

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2005 |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Revenue, Gains, and Other Support | | | | |
| Tuition and Fees | \$ 47,489,051 | \$ 0 | \$ 0 | \$ 47,489,051 |
| Less: Scholarship Aid | <u>(17,436,182)</u> | <u>0</u> | <u>0</u> | <u>(17,436,182)</u> |
| Net Tuition and Fees | 30,052,869 | 0 | 0 | 30,052,869 |
| Government Grants and Contracts | 3,995,414 | 0 | 0 | 3,995,414 |
| Private Gifts and Grants | 520,781 | 1,475,160 | 877,032 | 2,872,973 |
| Investment Return | 744,030 | 2,248,146 | 39,008 | 3,031,184 |
| Change in Value of Annuity Obligations | 0 | 0 | (26,588) | (26,588) |
| Sales and Service of Auxiliary Enterprises | 6,649,560 | 0 | 0 | 6,649,560 |
| Other Sources | <u>742,085</u> | <u>0</u> | <u>0</u> | <u>742,085</u> |
| Total Revenue and Gains | 42,704,739 | 3,723,306 | 889,452 | 47,317,497 |
| Net Assets Released from Restrictions | <u>695,077</u> | <u>(777,482)</u> | <u>82,405</u> | <u>0</u> |
| Total Revenue, Gains, and Other Support | <u>43,399,816</u> | <u>2,945,824</u> | <u>971,857</u> | <u>47,317,497</u> |
| Expenses | | | | |
| Educational and General | | | | |
| Instructional and Research | 14,982,091 | 0 | 0 | 14,982,091 |
| Academic Support | 4,766,367 | 0 | 0 | 4,766,367 |
| Student Services | 8,345,714 | 0 | 0 | 8,345,714 |
| Institutional Support | <u>10,771,253</u> | <u>0</u> | <u>0</u> | <u>10,771,253</u> |
| Total Educational and General | 38,865,425 | 0 | 0 | 38,865,425 |
| Auxiliary Enterprises | <u>4,334,464</u> | <u>0</u> | <u>0</u> | <u>4,334,464</u> |
| Total Expenses | <u>43,199,889</u> | <u>0</u> | <u>0</u> | <u>43,199,889</u> |
| Increase in Net Assets | 199,927 | 2,945,824 | 971,857 | 4,117,608 |
| Net Assets, Beginning of Year | <u>23,416,076</u> | <u>4,966,501</u> | <u>8,173,606</u> | <u>36,556,183</u> |
| Net Assets, End of Year | <u>\$ 23,616,003</u> | <u>\$ 7,912,325</u> | <u>\$ 9,145,463</u> | <u>\$ 40,673,791</u> |

The Accompanying Notes are an Integral Part of These Financial Statements.

UTICA COLLEGE
STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|---|--------------------|--------------------|
| Cash Flows from (Used by) Operating Activities | | |
| Increase (Decrease) in Net Assets | \$ (361,573) | \$ 4,117,608 |
| Adjustments for Noncash Transactions | | |
| Depreciation | 3,392,749 | 2,879,783 |
| Amortization of Bond Issuance Costs | 169,802 | 79,986 |
| Allowance for Uncollectibles | 509,245 | 295,780 |
| Gifts of Marketable Securities | (771,174) | (216,239) |
| Realized (Gain) on Long-Term Investments | (1,762,520) | (273,182) |
| Unrealized (Gain) Loss on Long-Term Investments | 705,199 | (2,166,433) |
| (Increase) Decrease in Assets | | |
| Tuition and Fees Receivable | (673,414) | (1,144,314) |
| Grants and Other Operating Receivables | (351,184) | 34,449 |
| Unconditional Promises to Give | 522,483 | (428,660) |
| Inventories | 5,464 | (905) |
| Other Deferred and Prepays | (9,671) | (178,951) |
| Perkins and Gate Loans Receivable | (520,153) | (131,002) |
| Restricted Cash - Construction | (2,176,903) | (279,143) |
| Increase (Decrease) in Liabilities | | |
| Accounts Payable and Accrued Liabilities | 936,798 | (48,918) |
| Deposits and Deferred Revenue | 878,427 | 655,203 |
| Charitable Trust Obligations | (10,462) | (7,579) |
| Federal Student Loans Deferred | (40,248) | (20,576) |
| Postretirement Benefits | <u>506,680</u> | <u>538,502</u> |
| Net Cash Flows from Operating Activities | <u>949,545</u> | <u>3,705,409</u> |
| Cash Flows from (Used by) Investing Activities | | |
| Purchases of Investments | (5,115,656) | (898,477) |
| Proceeds from Sales of Investments | 7,530,696 | 764,949 |
| Reinvested Interest and Dividends | (363,074) | (339,012) |
| Payments for Bond Issuance Costs | (1,140,105) | (194,678) |
| Payments for Capital Assets | <u>(7,203,540)</u> | <u>(7,733,318)</u> |
| Net Cash (Used by) Investing Activities | <u>(6,291,679)</u> | <u>(8,400,536)</u> |

(Continued)

The Accompanying Notes are an Integral Part of These Financial Statements.

UTICA COLLEGE
STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2006 and 2005
(Continued)

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Cash Flows from (Used by) Financing Activities | | |
| Repayment of Long-Term Debt | \$ (8,294,000) | \$ (638,000) |
| Proceeds of Long-Term Debt | 12,140,000 | 8,373,365 |
| Bond Premium | 154,997 | 0 |
| Payments to Bond Trustee | (14,287,738) | (7,364,213) |
| Interest Earned by Bond Trustees | (194,954) | (144,038) |
| Proceeds from Bond Trustee | 15,279,568 | 3,672,177 |
| Proceeds from Line of Credit | 0 | 1,111,000 |
| Repayment of Line of Credit | <u>0</u> | <u>(1,111,000)</u> |
| Net Cash Flows from Financing Activities | <u>4,797,873</u> | <u>3,899,291</u> |
| | | |
| Net (Decrease) in Cash and Cash Equivalents | (544,261) | (795,836) |
| | | |
| Cash and Cash Equivalents, Beginning of Year | <u>2,535,666</u> | <u>3,331,502</u> |
| | | |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,991,405</u> | <u>\$ 2,535,666</u> |

Supplemental Cash Flow Disclosures

| | | |
|-------------------------------|---------------------|---------------------|
| Cash Paid During the Year for | | |
| Interest | <u>\$ 2,289,925</u> | <u>\$ 1,733,998</u> |
| | | |
| Income Taxes | <u>\$ 0</u> | <u>\$ 0</u> |

The Accompanying Notes are an Integral Part of These Financial Statements.

UTICA COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2006 and 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Utica College (the College), located in Utica, New York, was established in 1946 to educate undergraduate students, preparing them to achieve distinction in their chosen professions. The College offers four-year programs leading to the Bachelor of Arts or the Bachelor of Science degrees in a broad variety of majors in the liberal arts and sciences and in professional studies. In addition, the College offers several degrees for graduate programs. The College's main sources of revenue are derived from tuition and fees charged to students, government grants and contracts, and sale and service of auxiliary enterprises.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These financial statements, presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by reporting information regarding financial position and activities according to three classes: permanently restricted, temporarily restricted, or unrestricted.

Classification of Net Assets

The accompanying financial statements have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that are permanently maintained by the College. Generally, donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or may not be met by actions of the College and/or the passage of time.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

UTICA COLLEGE
NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Contributions and Donations

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Income (losses) and realized and unrealized net gains (losses) on investments of endowment and similar funds are reported as follows:

- As increases (decreases) in permanently restricted net assets if the terms of the gift or the College Board's interpretation of relevant State law require that they be added to (subtracted from) the principal of the Permanent Endowment Fund;
- As increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of income;
- As increases (decreases) in unrestricted net assets in all other cases.

Temporarily Restricted Net Assets

With respect to temporarily restricted net assets, the College follows the optional accounting policies as permitted by the various provisions of Statement of Financial Accounting Standards (SFAS) No. 116:

Release of Restriction of Net Assets - The College has adopted the provisions of SFAS No. 116 concerning the release from restrictions on temporarily restricted net assets upon the occurrence of an expense when both unrestricted and temporarily restricted net assets are available for that purpose.

Contributions With Restrictions Met in the Same Year - Contributions received with donor-imposed restrictions that are met in the same year are reported as revenues in the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collections

Contributions of works of art, historical treasures, and similar assets held as part of a collection for education, research, or public exhibition rather than resale have been recognized as revenue at their estimated fair market value at the date of receipt based upon appraisals or similar valuations. Such items, along with purchased works of art, have been capitalized.

Auxiliary Enterprises

The College's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the College's auxiliaries consist of residence halls and dining halls. Auxiliary enterprise revenues and expenses are reported in the statements of activities in unrestricted net assets.

Endowment Spending Rate Policy

The College's endowment fund investments are managed to achieve the maximum long-term total return. The College's Board of Trustees has authorized a policy permitting the use of total returns at rate (spending rate) of up to 5.25% of the four-year average market value of the endowment portfolio on the last day of the preceding fiscal year for current operations. The remainder is retained to support operations of future years. This policy is designed to preserve the value of the portfolio in real terms (after inflation) and provide a predictable flow of funds to support operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. In addition, estimates and assumptions are used to determine disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used in the determination of allowance for doubtful accounts, depreciation, post retirement benefits, and certain accrued liabilities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits and certificates of deposit with original maturities less than 90 days, except that such investments purchased with endowment assets or deposits with trustees are classified as long-term investments.

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Inventory

The inventory is recorded at stated value which approximates market.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair market values with gains and losses included in the Statement of Activities. Real estate holdings are recorded at appraised value. Certain parcels of donated land are reported at \$1 plus related closing costs and will be recorded as support when they are sold.

Capital Assets

Most Capital Assets are stated at cost if purchased or at fair value (on the date of donation) if donated. Certain land and buildings were recorded at fair value on the date of transfer from its former affiliated entities. Depreciation is calculated using the straight-line method over estimated useful lives of assets as follows:

| | |
|-----------------------------|-----------------|
| Land Improvements | 5 to 20 Years |
| Buildings and Improvements | 20 to 40 Years |
| Leasehold Improvements | 20 Years |
| Equipment | 5 to 8 Years |
| Library and Art Collections | 10 to 100 Years |
| Other Capitalized Costs | 10 Years |

The College's capitalization policy requires that all donated or purchased property with a cost or fair market value exceeding \$1,000 is recorded as a capital asset.

Expense Allocation

Expenses are reported by functional classification which include instructional and research, academic support, student services, institutional support, and auxiliary enterprises. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Advertising

The College expenses the cost of advertising as it is incurred. Advertising expense for 2006 and 2005 were \$217,845 and \$212,300, respectively.

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Reclassification

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2 TAXABLE STATUS

The College is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and utilizes May 31 as its fiscal year end. In addition, the College has been classified as an organization that is not a private foundation.

NOTE 3 RECEIVABLES

The tuition and fees and Perkins and Gate Loans receivables are presented in the statements of financial position at cost net of an allowance for uncollectible accounts. The College allows for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. The following is a summary of those receivables and their respective allowances as of May 31, 2006 and 2005:

| | 2006 | | |
|-----------------------------------|--------------|---------------|--------------|
| | Gross | Allowance | Net |
| Tuition and Fees Receivable | \$ 6,410,806 | \$(2,853,869) | \$ 3,556,937 |
| Perkins and Gate Loans Receivable | \$ 2,728,122 | \$ (180,750) | \$ 2,547,372 |
| | 2005 | | |
| | Gross | Allowance | Net |
| Tuition and Fees Receivable | \$ 6,005,522 | \$(2,612,754) | \$ 3,392,768 |
| Perkins and Gate Loans Receivable | \$ 2,196,507 | \$ (169,288) | \$ 2,027,219 |

During the years ended May 31, 2006 and 2005, the College recognized bad debts expense of \$509,245 and \$364,033, respectively. The College considers its other receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established.

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 4 UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

Unconditional promises to give expected to be collected in:

| | <u>2006</u> | <u>2005</u> |
|--------------------------------------|-------------------|-------------------|
| Less Than One Year | \$ 95,018 | \$ 574,893 |
| One to Five Years | 162,055 | 202,305 |
| More Than Five Years | <u>18,099</u> | <u>20,457</u> |
| Total Unconditional Promises to Give | <u>\$ 275,172</u> | <u>\$ 797,655</u> |

The College considers all amounts to be fully collectible; accordingly, no allowance for doubtful accounts has been established. Promises to give expected to be received beyond one year have not been discounted due to immateriality.

NOTE 5 DEPOSITS WITH BOND TRUSTEES AND RESTRICTED CASH

Bond proceeds and related investment income not yet expended for new construction, and/or equipment purchases, and used to establish debt service funds are held on deposit with bond trustees. The College has entered into a financing agreement to finance construction projects and has deposited funds with trustees for such projects. Bond proceeds, including interest income in excess of construction costs are reserved for future debt service obligations. Additionally, under the financing agreement, deposits with bond trustees represent required reserves for debt service combined with earnings on such funds. At May 31, 2006 and 2005, the College maintained required debt service reserves of \$2,388,531 and \$2,820,944, respectively.

Deposits with bond trustees at May 31, 2006 and 2005, are comprised of cash and cash equivalents invested in interest-bearing accounts, and were \$6,709,206 and \$7,506,082, respectively.

Restricted cash of \$2,456,046 and \$279,143 at May 31, 2006 and 2005, respectively, consists of money held for construction costs as a result of the Capital Campaign.

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 6 LONG-TERM INVESTMENTS

Investments at May 31, 2006 and 2005, are comprised of the following:

| | 2006 | | 2005 | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Market | Cost | Market | Cost |
| Cash and Cash Equivalents | \$ 97,151 | \$ 97,151 | \$ 687,939 | \$ 687,939 |
| U.S. Government and Agencies | 0 | 0 | 44,075 | 39,588 |
| Corporate Equities | 62,070 | 62,070 | 216,138 | 200,428 |
| Mutual Funds | 16,557,828 | 16,118,090 | 14,007,092 | 14,217,889 |
| Life Insurance | 352,792 | 317,347 | 338,600 | 318,178 |
| Real Estate Holdings | 13,630 | 13,630 | 2,012,980 | 662,420 |
| Total | <u>\$ 17,083,471</u> | <u>\$ 16,608,288</u> | <u>\$ 17,306,824</u> | <u>\$ 16,126,442</u> |

For the periods ended May 31, 2006 and 2005, the components of the College's investment return are as follows:

| | 2006 | 2005 |
|----------------------------|---------------------|---------------------|
| Interest and Dividends | \$ 791,184 | \$ 606,894 |
| Net Realized Gain | 1,762,520 | 273,182 |
| Net Unrealized Gain (Loss) | (705,199) | 2,166,433 |
| Less: Investment Fees | (19,308) | (15,325) |
| Total Return on Investment | <u>\$ 1,829,197</u> | <u>\$ 3,031,184</u> |

Real estate holdings include property recorded at appraised values at the date of the gift. Certain parcels of donated land are reported at \$1 (along with any fees incurred that are associated with the property) and will be recorded as support when the land is sold. Appraised values of these properties are as follows:

| | 2006 | | 2005 | |
|---------------------|---------------------|--------------------|---------------------|--------------------|
| | Appraisal Amount | Recorded Amount | Appraisal Amount | Recorded Amount |
| Vero Beach | \$ 0 | \$ 0 | \$ 2,000,000 | \$ 649,440 |
| Adirondack Property | 1,721,000 | 13,630 | 2,994,600 | 12,980 |
| Total | <u>\$ 1,721,000</u> | <u>\$ 13,630</u> | <u>\$ 4,994,600</u> | <u>\$ 662,420</u> |

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 6 LONG-TERM INVESTMENTS (Continued)

The Vero Beach property, including dock rights, was sold on June 30, 2005, for \$2,500,000, therefore, an unrealized gain of \$1,350,560 and an additional gift of \$500,000 was recorded at May 31, 2005.

NOTE 7 CHARITABLE REMAINDER TRUST

The College is the beneficiary of a charitable remainder trust which is administered by a third party. A charitable remainder trust provides for the payment of distributions to the donors' designated beneficiaries over the trust's term (designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the College's use. The portion of the trusts attributable to the present value of the future benefits to be received by the College is recorded in the Statement of Activities as a temporarily restricted contribution in the period the trusts are established. Net distributions for the years ended May 31, 2006 and 2005, totaled \$23,850 and \$23,687, respectively. Assets held in the charitable remainder trust totaled \$396,988 and \$384,587 at May 31, 2006 and 2005, respectively, and are reported at fair market value in the College's long-term investment on the Statement of Financial Position.

On an annual basis, the College revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$199,172 and \$206,709 at May 31, 2006 and 2005, respectively) is calculated using a discount rate of 6.4% and applicable mortality tables. The change in the present value of the estimated future payments of \$7,537 and \$4,502 for the years ended May 31, 2006 and 2005, are recorded in the Statement of Activities.

NOTE 8 CHARITABLE GIFT ANNUITY

In addition to a charitable remainder trust, the College also administers several charitable gift annuities. The gift annuities provide for payment distributions to the donors for the remainder of their lives. Upon the death of the donors, the remaining assets are available for College use, subject to donor restrictions, if any. At May 31, 2006 and 2005, the College's obligation on these annuities totaled \$102,356 and \$105,280, respectively. The obligations were calculated similar to the charitable remainder trust using discount rates varying from 3.8% to 6.0%. Distributions under these annuity arrangements were \$10,300 and \$10,300 during each of the years ended May 31, 2006 and 2005, respectively.

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 9 CAPITAL ASSETS

A detail of the College's capital assets at May 31, 2006 and 2005, consisted of the following:

| | <u>2006</u> | <u>2005</u> |
|-----------------------------|----------------------|----------------------|
| Construction in Progress | \$ 611,134 | \$ 4,055,097 |
| Land | 6,205,850 | 6,195,850 |
| Land Improvements | 3,177,168 | 2,701,824 |
| Buildings and Improvements | 46,991,205 | 38,272,929 |
| Leasehold Improvements | 812,292 | 789,519 |
| Equipment | 9,806,649 | 8,813,982 |
| Library and Art Collections | 7,480,355 | 7,051,912 |
| Other Capitalized Costs | 120,484 | 120,484 |
| Accumulated Depreciation | <u>(21,902,516)</u> | <u>(18,509,767)</u> |
| Net Capital Assets | <u>\$ 53,302,621</u> | <u>\$ 49,491,830</u> |

Total depreciation for the years ended May 31, 2006 and 2005, was \$3,392,749 and \$2,879,783, respectively, and was allocated to the College's functional expense categories. Construction in progress at May 31, 2005, consisted of costs related to Bell Hall and Tower Hall. Construction in progress at May 31, 2006, consisted of costs related to the Science and Technology Center.

NOTE 10 BOND ISSUANCE COSTS

The College has incurred costs associated with bond issues. Such costs are deferred and amortized using the straight-line method over the life of related debt. Amortization expense on bond issuance costs were \$169,802 and \$79,986 for the years ended May 31, 2006 and 2005, respectively. Bond issuance costs net of accumulated amortization at May 31, 2006 and 2005, were as follows:

| | <u>2006</u> | <u>2005</u> |
|---------------------------|---------------------|-------------------|
| Bond Issuance Costs | \$ 1,980,057 | \$ 839,952 |
| Accumulated Amortization | <u>(577,205)</u> | <u>(407,403)</u> |
| Bond Issuance Costs (Net) | <u>\$ 1,402,852</u> | <u>\$ 432,549</u> |

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 11 REVOLVING LINE OF CREDIT

The College also has an unsecured \$2,000,000 revolving line of credit, bearing interest at a rate of 8% and 6% for the years ended May 31, 2006 and 2005, respectively. The College borrowed \$0 and \$1,111,000 against this line during the years ended May 31, 2006 and 2005, respectively. The College paid \$0 and \$2,160 in interest for the years ended May 31, 2006 and 2005, respectively. The College did not have an outstanding balance on its line of credit at May 31, 2006 and 2005.

NOTE 12 LONG-TERM DEBT

The College's outstanding debt at May 31, 2006 and 2005, consisted of the following:

| | <u>Maturity</u> | <u>Interest Rate</u> | <u>2006</u> | <u>2005</u> |
|---------------------------|-----------------|--------------------------|----------------------|----------------------|
| Academic Building Bonds – | | | | |
| 1969 | 10/09 | 3.000% | \$ 213,367 | \$ 262,368 |
| Revenue Bonds – 1998 | 08/08 | 5.300% | 470,000 | 610,000 |
| Revenue Bonds – 1998 | 08/28 | 5.750% | 7,005,000 | 7,005,000 |
| Term Bond – 2001 | 12/11 | 6.375% | 1,710,000 | 1,940,000 |
| Term Bond – 2001 | 12/21 | 6.750% | 4,815,000 | 4,815,000 |
| Term Bond – 2001 | 12/31 | 6.850% | 9,300,000 | 9,300,000 |
| Term Bond – 2004 | 12/05 | 7.500% | 0 | 35,000 |
| Term Bond – 2004 | 12/14 | 6.875% | 0 | 1,020,000 |
| Term Bond – 2004 | 12/24 | 6.875% | 0 | 2,315,000 |
| Term Bond – 2004 | 12/34 | 6.875% | 0 | 4,505,000 |
| Term Bond – 2005 Series A | 10/25 | 3.400% | 4,110,000 | 0 |
| Term Bond – 2005 Series B | 10/34 | 2.720- | | |
| | | 4.500% | <u>8,030,000</u> | <u>0</u> |
| | | | 35,653,367 | 31,807,368 |
| Current Maturities | | | <u>(446,000)</u> | <u>(454,000)</u> |
| Total Long-Term Debt | | | <u>\$ 35,207,367</u> | <u>\$ 31,353,368</u> |

Based on current borrowing rates, the fair value of these notes approximates their carrying amounts.

Total interest expense incurred on Long-Term Debt was \$2,351,428 and \$1,433,128 for the years ended May 31, 2006 and 2005, respectively.

The various bonds are collateralized by the related property and equipment. The Academic Building Bonds and Revenue Bond agreement requires the establishment of a debt service reserve which is recorded in the Statement of Financial Position at year end. The College was in compliance with debt covenants at May 31, 2006 and 2005.

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 12 LONG-TERM DEBT (Continued)

The future annual requirements to amortize long-term debt outstanding at May 31, 2006, are as follows:

| Year Ending <u>May 31,</u> | <u>Amount</u> |
|-------------------------------|----------------------|
| 2007 | \$ 446,000 |
| 2008 | 467,000 |
| 2009 | 494,000 |
| 2010 | 521,367 |
| 2011 | 610,000 |
| To Maturity | <u>33,115,000</u> |
| Total | <u>\$ 35,653,367</u> |

Advance Refunding

On November 29, 2005 the College refunded and defeased in substance its outstanding 2004 Series bonds of \$7,840,000 with the Series 2005B bonds. All of the issuance costs were funded from the bond proceeds. The net proceeds of \$7,923,656, in addition to the 2004 Series bond reserve of \$639,209, were deposited into an irrevocable trust to provide funding for the debt service on the 2004 Series bonds to the call date in the year 2009. The excess costs of \$722,865 necessary to defease the 2004 Series bonds will be amortized over the remaining life of the bonds.

NOTE 13 BOND PREMIUM

The College recorded bond premiums of \$653,362 and \$498,365 at May 31, 2006 and 2005, respectively, in conjunction with the sale of the Series 2005 and 2004 bonds. The bond premiums are being amortized as interest over the life of the bonds.

NOTE 14 LEASE COMMITMENTS

On August 13, 1998, the College sold the Burrstone House Building to St. Luke's Memorial Hospital Center (Hospital). As a condition of the sale, the College is allowed to lease back space in the building for a period not to exceed 10 years. Under the agreement, the College or the Hospital can terminate the lease providing certain time restrictions are met.

The lease agreement set forth monthly rent payments for the first five years of the lease. The next five years of the agreement are on an annual basis and are calculated using the same components as the first five years. Total lease expense was \$174,564 and \$160,017 for the years ended May 31, 2006 and 2005, respectively

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 14 LEASE COMMITMENTS (Continued)

Also, on May 11, 2001, the College entered into two lease agreements with the Upper Mohawk Valley Memorial Auditorium Authority (Authority) for the Utica Memorial Auditorium (Auditorium).

The first agreement provides for the College to lease the ice arena to facilitate its collegiate ice hockey program which began during the 2001-2002 academic year. The terms of the lease are for 10 years beginning October 1, 2001, with the ability to renew and terminate in accordance with the specifications outlined in the agreement. Rent is paid in the amount of \$95 per hour. The Authority reserves the right to increase this rate during the remaining years, not to exceed an increase of 10%, in any one year. The agreement also outlines terms for concessions and admissions. Facilities rental expense was \$66,747 and \$54,915 at May 31, 2006 and 2005, respectively.

A separate agreement with the Authority dated the same, is for a term of 20 years, beginning June 1, 2001, for \$10 annually. The College leases a parcel of land adjacent to the Auditorium which will be used to construct a locker room facility. The College is responsible for utilities and repairs for the locker room facility. The lease has certain options for renewal and termination as outlined in the agreement. Total capitalized leasehold improvements related to this project amounted to \$717,008 at May 31, 2006 and 2005.

NOTE 15 POSTRETIREMENT BENEFITS

The College sponsors two defined benefit postretirement plans which cover substantially all employees that attain the age of 55 years with one year of service. For new employees hired after May 31, 2004, an individual must be at least 55, with a minimum of 5 years of service and a minimum combination of service and age at retirement equaling at least 65. All employees aged 50 or older as of May 31, 2004, will be exempt from this provision. The two postretirement plans offered are MVP PPO and MVP HMO. These plans are contributory (effective January 1, 2005 the contributory portion is 17%) for retirees under age 65, and are noncontributory for those 65 through 69. Coverage under the health care plan ceases once a retiree reaches the age of 70 years. Retirees 70 or older may continue their coverage on a full payment basis. All retirees are provided life insurance benefits of \$3,000 and continues beyond the age of 70 until death of the retiree.

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 15 POSTRETIREMENT BENEFITS (Continued)

Upon Utica College becoming a separate fiscal entity, Syracuse University assumed the liability for all current Utica College retirees. In accordance with the provisions of SFAS No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions," Utica College recognized the accrued postretirement benefit cost they had previously accrued as of June 30, 1995, while financially affiliated with Syracuse University, with the exception of the Accumulated Postretirement Benefit Obligation for current retirees.

Information with respect to the plans is as follows:

| | 2006 | 2005 |
|---|-----------------------|-----------------------|
| Change in Benefit Obligation | | |
| Benefit Obligation at Beginning of Year | \$ 8,127,115 | \$ 5,357,507 |
| Service Cost | 317,352 | 325,622 |
| Interest Cost | 396,328 | 367,501 |
| Plan Participant's Contributions | 66,321 | 44,671 |
| Amendments/Curtailments/Special Termination | 0 | 916,843 |
| Actuarial (Gain)/Loss | (926,475) | 1,445,005 |
| Benefits Paid | <u>(491,633)</u> | <u>(330,034)</u> |
| Benefit Obligation at End of Year | <u>\$ 7,489,008</u> | <u>\$ 8,127,115</u> |
| Change in Plan Assets | | |
| Fair Value of Plan Assets at Beginning of Year | \$ 0 | \$ 0 |
| Employer Contribution | 425,312 | 285,363 |
| Plan Participant's Contributions | 66,321 | 44,671 |
| Benefits Paid | <u>(491,633)</u> | <u>(330,034)</u> |
| Fair Value of Plan Assets at Year End | <u>\$ 0</u> | <u>\$ 0</u> |
| Components of Prepaid/(Accrued) Benefit Cost | | |
| Funded Status | \$ (7,489,008) | \$ (8,127,115) |
| Unrecognized Transition Obligation | 0 | 0 |
| Unrecognized Prior Service Cost | 794,551 | 897,541 |
| Unrecognized Actuarial Net (Gain)/Loss | <u>1,697,438</u> | <u>2,739,235</u> |
| Prepaid/(Accrued) Benefit Cost | <u>\$ (4,997,019)</u> | <u>\$ (4,490,339)</u> |
| Components of Net Periodic Benefit Cost | | |
| Service Cost | \$ 317,352 | \$ 325,622 |
| Interest Cost | 396,328 | 367,501 |
| Amortization of Gains and Losses | 115,322 | 79,758 |
| Amortization of Unrecognized Prior Service Cost | <u>102,990</u> | <u>50,984</u> |
| Net Periodic Postretirement Benefit Cost | <u>\$ 931,992</u> | <u>\$ 823,865</u> |

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 15 POSTRETIREMENT BENEFITS (Continued)

The College expects to contribute \$502,824 to the plans, net of employee contributions for the year ending May 31, 2007.

The weighted average assumptions used to determine the benefit obligation and net benefit cost are as follows for the years ended May 31, 2006 and 2005:

| | Discount Rate | |
|---------------------------|---------------|-------------|
| | <u>2006</u> | <u>2005</u> |
| Benefit Obligation | 6.07% | 5.25% |
| Net Periodic Benefit Cost | 5.25% | 6.25% |

Estimated Future Benefit Payments

Shown below are expected benefit payments which reflect expected future service for the fiscal year:

| | <u>Gross Payments</u> |
|-----------|---------------------------|
| 2007 | \$ 502,824 |
| 2008 | \$ 544,213 |
| 2009 | \$ 558,976 |
| 2010 | \$ 623,816 |
| 2011 | \$ 659,446 |
| 2012-2016 | \$ 3,473,887 |

The assumed health care cost trend rate information is as follows:

Assumed pre-65 medical trend rates at May 31

| | |
|---|------|
| Health care cost trend rate assumed for next year | 9.5% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5.0% |
| Year that the rate reaches the ultimate trend rate | 2015 |

Assumed Post-65 medical trend rates at May 31

| | |
|---|------|
| Health care cost trend rate assumed for next year | 7.7% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5.0% |
| Year that the rate reaches the ultimate trend rate | 2015 |

Assumed Prescription Drug trend rates at May 31

| | |
|---|-------|
| Health care cost trend rate assumed for next year | 13.0% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5.0% |
| Year that the rate reaches the ultimate trend rate | 2015 |

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 15 POSTRETIREMENT BENEFITS (Continued)

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 the health care cost trend rates would have the following effects:

| | <u>1-Percentage Point Increase</u> | <u>1-Percentage Point Decrease</u> |
|---|--|--|
| Effect on total of service and interest cost components | \$ 98,784 | \$ (85,987) |
| Effect on postretirement benefit obligation | \$ 732,775 | \$ (662,182) |

Utica College has chosen not to apply for the Medicare Part D prescription drug federal subsidy. Therefore, the above disclosure does not reflect the impact of Medicare Part D. Authoritative guidance on Accounting for the Act's federal subsidy is pending and that guidance, when issued, could require changes to previously reported information.

The College measures the obligations and related asset values as of May 31 of each year.

NOTE 16 PENSION PLANS

The College participates in the Teachers' Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) program. TIAA/CREF is a not-for-profit organization which provides benefits through annuity contracts. The retirement program is a defined contribution retirement plan.

The College contributes up to 11% of eligible employees' earnings to TIAA/CREF on an annual basis and for the years ended May 31, 2006 and 2005, the College's required contributions amounted to \$1,400,468 and \$1,335,329, respectively.

NOTE 17 RELATED PARTIES

The College conducts business with various vendors throughout the Greater Utica Area. Several of the College's vendors have principals or employees currently serving on its Board of Trustees. In accordance with College's by-laws, each vendor serving on the College's Board of Trustees is required to disclose the details of transactions and other business involvements with the College. Significant related party transactions for the year ended May 31, 2006, include certain lines of insurance coverage (approximately \$30,000), automobile sales, leases, or rentals and parts and service (approximately \$250,000), data processing and printing services (approximately \$95,000), and janitorial, landscape, and building maintenance service (approximately \$2,300,000 annual contract).

UTICA COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2006 and 2005

NOTE 18 AFFILIATED ORGANIZATIONS

Effective July 1, 1995, the College became a legally and fiscally independent institution of higher education. However, the College continues to be academically affiliated with Syracuse University.

NOTE 19 CONTINGENCIES

Federally funded financial aid programs are subject to special audit. Such audits could result in claims against the resources of the College. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

NOTE 20 RESTRICTED NET ASSETS

The College's temporarily and permanently restricted net assets are comprised of the following at May 31, 2006 and 2005:

Temporarily Restricted Net Assets

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Campus Development | \$ 2,844,996 | \$ 475,906 |
| Faculty and Academic Program Development | 729,622 | 549,680 |
| Library | 112,398 | 87,609 |
| Scholarships | 649,703 | 532,952 |
| Endowment and Developing Endowment | <u>5,157,746</u> | <u>6,266,178</u> |
| Total | <u>\$ 9,494,465</u> | <u>\$ 7,912,325</u> |

Permanently Restricted Net Assets

| | | |
|-------------------------|---------------------|---------------------|
| Endowment Funds | \$ 9,273,313 | \$ 8,896,093 |
| Life Income and Similar | <u>261,019</u> | <u>249,370</u> |
| Total | <u>\$ 9,534,332</u> | <u>\$ 9,145,463</u> |

NOTE 21 SUBSEQUENT EVENT

On September 29, 2006, the College accepted an offer to purchase a parcel of land gifted to Utica College located in Old Forge, New York for the price of \$1,721,000. The land is recorded on the College's books for \$13,630 as of May 31, 2006.