



UNION COLLEGE

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

UNION COLLEGE

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KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

Board of Trustees
Union College:

We have audited the accompanying statements of financial position of Union College (College) as of June 30, 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 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 College's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 Union College as of June 30, 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.

KPMG LLP

October 27, 2006

UNION COLLEGE

Statements of Financial Position

June 30, 2006 and 2005

Assets	2006	2005
Cash and cash equivalents	\$ 12,071,280	10,715,825
Accrued investment income	450,447	511,464
Due from broker	307,400	119,428
Inventories	929,839	704,806
Prepaid expenses and deferred charges	1,732,679	1,639,784
Due from Union Graduate College	—	158,964
Pledges receivable, net	6,449,226	10,785,017
Deposits with bond trustees	11,340,336	9,628,445
Investments	328,973,083	297,563,564
Notes and accounts receivable, net	9,550,142	9,699,874
Irrevocable trusts	8,147,248	8,312,166
Land, buildings, and equipment, net	134,809,870	132,968,724
Other assets	324,678	323,568
Total assets	\$ 515,086,228	483,131,629
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 8,385,929	8,417,348
Construction costs payable	824,353	548,384
Student and other deposits	685,573	766,743
Deferred income	1,854,603	1,741,141
Due to Union Graduate College	23,735	—
Long-term debt	68,081,135	66,779,638
Pooled life income and charitable gift annuities payable	5,776,814	4,696,804
Asset retirement obligations	1,253,740	—
Federal student loan funds	2,620,766	2,694,204
Accrued post retirement benefits	6,312,600	5,882,465
Total liabilities	95,819,248	91,526,727
Net assets:		
Unrestricted	290,945,231	265,002,314
Temporarily restricted	10,749,429	12,476,426
Permanently restricted	117,572,320	114,126,162
Total net assets	419,266,980	391,604,902
Total liabilities and net assets	\$ 515,086,228	483,131,629

See accompanying notes to financial statements.

UNION COLLEGE
Statement of Activities
Year ended June 30, 2006
(With summarized information for the year ended June 30, 2005)

	2006			2005 Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating and other net assets:				
Revenue and reclassifications:				
Tuition and fees	\$ 70,945,271	—	—	70,945,271
Room and board	15,737,022	—	—	15,737,022
Less student aid	(26,402,271)	—	—	(26,402,271)
Net tuition fees, room, and board	60,280,022	—	—	60,280,022
Investment return:				
Investment income	3,708,786	—	—	3,708,786
Endowment gains used to meet spending policy	13,198,307	—	—	13,198,307
Government grants	1,711,115	—	—	1,711,115
Private gifts and grants	10,495,109	1,085,355	—	11,580,464
Intercollegiate athletics and other sources	2,086,600	—	—	2,086,600
Auxiliary enterprises	5,199,853	—	—	5,199,853
Net assets released from restrictions	3,178,599	(3,178,599)	—	—
Total revenue and reclassifications	99,858,391	(2,093,244)	—	97,765,147
Expenses:				
Instructional and departmental research	32,532,790	—	—	32,532,790
Sponsored research programs	682,689	—	—	682,689
Academic support	7,211,449	—	—	7,211,449
Student services	6,356,725	—	—	6,356,725
Institutional support	16,078,605	—	—	16,078,605
Intercollegiate athletics	7,812,453	—	—	7,812,453
Auxiliaries operations	21,469,875	—	—	21,469,875
Other	510,224	—	—	510,224
Total expenses	92,654,810	—	—	92,654,810
Change in operating and other net assets	7,203,581	(2,093,244)	—	5,110,337
Endowment net assets:				
Investment return	33,484,960	—	—	33,484,960
Endowment gains used to meet spending policy	(13,198,307)	—	—	(13,198,307)
Private gifts and grants	—	462,191	3,446,158	3,908,349
Other	(311,588)	—	—	(311,588)
Net assets released from restrictions	95,944	(95,944)	—	—
Increase in endowment net assets	20,071,009	366,247	3,446,158	23,883,414
Net increase in net assets before effect of change in accounting principle	27,274,590	(1,726,997)	3,446,158	28,993,751
Cumulative effect of change in accounting principle (note 1(r))	(1,331,673)	—	—	(1,331,673)
Net increase (decrease) in net assets	25,942,917	(1,726,997)	3,446,158	27,662,078
Net assets at beginning of year	265,002,314	12,476,426	114,126,162	391,604,902
Net assets at end of year	\$ 290,945,231	10,749,429	117,572,320	391,604,902

See accompanying notes to financial statements.

UNION COLLEGE

Statement of Activities

Year ended June 30, 2005

	2005			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating and other net assets:				
Revenue and reclassifications:				
Tuition and fees	\$ 65,309,641	—	—	65,309,641
Room and board	14,561,961	—	—	14,561,961
Less student aid	(22,792,263)	—	—	(22,792,263)
Net tuition fees, room, and board	57,079,339	—	—	57,079,339
Investment return:				
Investment income	3,375,593	—	—	3,375,593
Endowment gains used to meet spending policy	14,081,058	—	—	14,081,058
Government grants	1,824,696	—	—	1,824,696
Private gifts and grants	6,838,596	2,600,638	—	9,439,234
Intercollegiate athletics and other sources	2,164,967	—	—	2,164,967
Auxiliary enterprises	4,562,046	—	—	4,562,046
Net assets released from restrictions	347,275	(347,275)	—	—
Total revenue and reclassifications	90,273,570	2,253,363	—	92,526,933
Expenses:				
Instructional and departmental research	31,978,020	—	—	31,978,020
Sponsored research programs	495,026	—	—	495,026
Academic support	6,846,681	—	—	6,846,681
Student services	5,877,209	—	—	5,877,209
Institutional support	16,813,070	—	—	16,813,070
Intercollegiate athletics	7,091,267	—	—	7,091,267
Auxiliaries operations	18,838,904	—	—	18,838,904
Other	472,428	—	—	472,428
Total expenses	88,412,605	—	—	88,412,605
Change in operating and other net assets	1,860,965	2,253,363	—	4,114,328
Endowment net assets:				
Investment return	25,135,925	—	—	25,135,925
Endowment gains used to meet spending policy	(14,081,058)	—	—	(14,081,058)
Private gifts and grants	2,204,434	100,473	5,784,080	8,088,987
Other	103,714	—	—	103,714
Net assets released from restrictions	273,273	(273,273)	—	—
Increase (decrease) in endowment net assets	13,636,288	(172,800)	5,784,080	19,247,568
Net increase in net assets	15,497,253	2,080,563	5,784,080	23,361,896
Net assets at beginning of year	249,505,061	10,395,863	108,342,082	368,243,006
Net assets at end of year	\$ 265,002,314	12,476,426	114,126,162	391,604,902

See accompanying notes to financial statements.

UNION COLLEGE
Statements of Cash Flows
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 27,662,078	23,361,896
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	10,190,372	9,736,248
Realized gains and change in unrealized appreciation from investments and deposits with bond trustees, net	(33,598,616)	(25,192,617)
Gifts of securities	(3,065,631)	(287,805)
Change in present value of pooled life income	319,625	(103,622)
Contributions for endowment or long lived assets	(8,666,660)	(10,395,484)
Provision for allowance for doubtful notes and accounts receivable	271,645	69,170
Loss on disposal of equipment	96,136	119,061
Cumulative effect of change in accounting principle	1,253,740	—
Changes in assets and liabilities that provide (use) cash:		
Notes and accounts receivable	(55,477)	1,349,488
Accrued investment income	61,017	(23,843)
Inventories	(225,033)	(124,980)
Prepaid expenses and deferred charges	(92,895)	(324,809)
Due from Union Graduate College	182,699	159,392
Pledges receivable	4,335,791	(347,264)
Irrevocable trusts	164,918	(162,940)
Other assets	(1,110)	(18,578)
Accounts payable and accrued expenses	(31,419)	895,669
Student and other deposits	(81,170)	(151,167)
Deferred income	113,462	475,081
Due to/from broker	(187,972)	(131,664)
Accrued post retirement benefits	430,135	595,525
Net cash used in operating activities	<u>(924,365)</u>	<u>(503,243)</u>
Cash flows from investing activities:		
Purchases of investments	(251,620,359)	(183,710,574)
Proceeds from the sales and maturities of investments	256,854,865	188,634,720
Change in deposits with bond trustees	(1,691,669)	11,263,604
Purchases of land, buildings, and equipment, net of change in construction costs payable	(11,851,685)	(23,222,301)
Student loans issued	(1,348,780)	(1,094,085)
Proceeds from student loans collections	1,282,344	1,182,421
Net cash used in investing activities	<u>(8,375,284)</u>	<u>(6,946,215)</u>
Cash flows from financing activities:		
Increase (decrease) in federal student loan funds	(73,438)	16,914
Payments of long-term debt	(2,565,000)	(2,347,526)
Additional long-term debt borrowed	3,723,941	—
Amortization of deferred issuance costs and discount/premium of long-term debt, net	142,556	246,161
Contributions for:		
Investment in endowment	5,231,136	9,639,902
Investment in long lived assets	2,405,327	671,676
Investment in life income and charitable gift annuity agreements	1,030,197	83,906
Change in charitable gift annuities payable	760,385	(105,503)
Net cash provided by financing activities	<u>10,655,104</u>	<u>8,205,530</u>
Net increase in cash and cash equivalents	1,355,455	756,072
Cash and cash equivalents, beginning of year	10,715,825	9,959,753
Cash and cash equivalents, end of year	<u>\$ 12,071,280</u>	<u>10,715,825</u>
Supplemental data:		
Interest paid	\$ 3,630,064	3,685,103

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies

(a) Organization

Union College (the College) was founded in 1795 and is a coeducational, independent, liberal arts, and engineering college located in Schenectady, New York.

(b) Basis of Presentation

The financial statements of the College have been prepared on the accrual basis of accounting. Permanently restricted net assets are those that are subject to donor imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets. Such assets primarily include the College's permanent endowment funds. Temporarily restricted net assets carry specific, donor imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Unrestricted net assets are not subject to donor imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets are generally available for program purposes such as financial aid, specified operating activities, facilities, and equipment. Permanently restricted net assets are restricted by the donor, the investment return from which is used to support program activities such as financial aid and instruction.

Unconditional contributions are recognized as contributions receivable at their estimated net present value when pledged. Contributions and investment return with donor-imposed restrictions are reported as permanently or temporarily restricted revenues and net assets. Temporarily restricted net assets are reclassified to unrestricted net assets when expense is incurred that satisfies the donor-imposed restriction. Temporarily restricted contributions and investment return received and expended for the restricted purpose in the same fiscal year are recorded in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets.

Endowment net assets include permanently restricted net assets and certain unrestricted and temporarily restricted net assets. Endowment net asset activities include realized and unrealized gains on investments not used to support current operations, investment return in excess or deficit of the College's spending policy for the year and additions to or changes in the value of split-interest arrangements and life income and endowment gifts.

(c) 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 and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of land, buildings, and equipment, valuation allowances for receivables, and the accrual for postretirement benefits. Actual results could differ from those estimates.

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Notes to Financial Statements

June 30, 2006 and 2005

(d) Fair Value of Financial Instruments

The fair value of the College's financial instruments approximates the carrying amount reported in the statement of financial position for cash and cash equivalents, accounts receivables, pledges receivable, investments, irrevocable trusts, deposits with bond trustees, and accounts payable except for notes receivable which are discussed below under "Federal Student Loan Funds" and long-term debt which is discussed in note 7.

(e) Cash and Cash Equivalents

Cash and cash equivalents, representing operating funds, include investments with an original maturity of three months or less. Cash and cash equivalents are reported at fair value, which approximates cost.

(f) Inventories

Inventories are stated at the lower of cost or market, based upon the first-in, first-out method.

(g) Investments

Investments are reported in the financial statements at fair value. The fair value of fixed income and publicly traded equity securities is based upon quoted market prices. Nonmarketable securities include alternative investments such as private equity and venture capital, which are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earning multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. The estimated fair value of these investments is based on the most recent valuations provided by the external investment managers. Because of the inherent uncertainty of valuation for these investments, the investment manager's estimate may differ from the values that would have been used had a ready market existed.

Investment income includes interest and dividends, realized gains (losses), and the change in unrealized appreciation (depreciation). The average cost of investment securities sold is used to determine the basis for computing realized gains or losses, and the College accounts for investments on a trade date basis. The due from/to broker represents net amounts receivable or payable on unsettled sales and purchases.

(h) Irrevocable Trusts

Several donors have established irrevocable trusts whereby the College is a beneficiary, but not the trustee. The present value of the portion of the trusts estimated to be distributable to the College upon the termination of the trusts is recorded as an asset of the College.

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Notes to Financial Statements

June 30, 2006 and 2005

(i) ***Land, Buildings, and Equipment***

Land, buildings, and equipment are recorded at cost, including interest on funds borrowed to finance construction, at the date of acquisition or estimated fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 3-40 years.

(j) ***Deferred Income***

Deferred income consists primarily of student fees related to the summer session.

(k) ***Federal Student Loan Funds***

This liability represents Perkins loan funds provided to students by the federal government through the College. The College is required to collect the loans on behalf of the federal government. The amount due from the students is reported in the College's financial statements as a component of notes receivable. It is not practical to determine the fair value of the student notes receivable because they include federally sponsored student loans with U.S. government mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer and disposition.

(l) ***Pooled Life Income and Charitable Gift Annuities Payable***

The liability for the present value of the deferred gifts is based upon estimates of the life expectancy of donors and beneficiaries and discount rates. Circumstances affecting these estimates can change the estimate of the liability in future periods.

(m) ***Sponsored Research and Programs***

Sponsored activities include various research and instructional programs funded by external parties including the federal government, state governments, and private foundations.

(n) ***Auxiliary Operations***

Auxiliary operations include dining services, residence halls, the College bookstore, ice hockey rink, and telecommunications office.

(o) ***Functional Expenses***

Depreciation, operations and maintenance costs, interest expense, and employee benefits are allocated to the functional expense categories reported within the operating section of the statement of activities. Depreciation and operations and maintenance costs are allocated based upon the estimated use of facilities and equipment. Interest expense is allocated based on specific identification of the use of debt proceeds. Employee benefits are allocated in relation to salary expense.

(p) ***Tax Status***

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income tax on related income.

UNION COLLEGE

Notes to Financial Statements

June 30, 2006 and 2005

(q) *Risks and Uncertainties*

The College may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. 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 will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

(r) *Commitments and Contingencies*

Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is possible that a liability has been incurred and the amount can be reasonably estimated. Legal costs associated with loss contingencies are expensed as incurred.

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143*. FIN 47 provides guidance in applying the provisions of Statements of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*, as they relate to conditional asset retirement obligations. FIN 47 requires that entities recognize a liability for the fair value of conditional asset retirement obligations if their fair values can be reasonably estimated.

The College has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement was estimated using a per square foot estimate for each impacted location. FIN 47 requires that the estimate be recorded as liability and as an increase to the asset. The capitalized portion is depreciated over the remaining useful life of the asset. The College recorded a liability of \$1,253,740 representing the fair value of these conditional asset retirement obligations. Had FIN 47 been applicable to the College as of April 30, 2005, the asset retirement obligation required to be recorded on the statement of financial position as of April 30, 2005 would have been approximately \$1,177,000.

Other conditional asset retirement obligations exist that are not estimable until a triggering event occurs (e.g. building sold) due to the absence or range of potential settlement dates. Presently the College does not have sufficient information to estimate the fair value of these obligations but does not believe these items are material to the College's financial statements.

(s) *Prior Year Reclassifications*

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

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Notes to Financial Statements

June 30, 2006 and 2005

(2) Due To/From Union Graduate College

The College and GCUU operate under Memorandums of Understanding (MOU) regarding the initial establishment of GCUU and future commitments of both the College and GCUU. The MOU stipulates that the College will provide certain administrative services to GCUU at an annual rate of \$100,000 through June 30, 2006. After that date, an annual review of the services required by GCUU and related rate will occur. This MOU also provides for shared teaching arrangements and cross-registration between the two parties. The College and GCUU have also entered into a lease agreement which covers GCUU's current administrative space and educational facilities. The term of the lease agreement is currently through May, 2006 and requires GCUU to pay \$136,500 in rent, in equal monthly installments, for the current administrative building. The lease agreement also specifies hourly rates that GCUU is required to pay for any educational facilities used including classrooms, laboratories and meeting space. This lease agreement shall continue for renewal periods of one year after the expiration of the initial term unless terminated by either party. Amounts due to/from GCUU at June 30, 2006 and 2005, primarily represent amounts due under the MOU.

(3) Notes and Accounts Receivable

The College extends credit, primarily to students, in the form of notes and accounts receivable for educational expenses. The students are primarily from the Northeastern United States. Notes receivables for student loans are expected to be collected within 15 years and interest rates average 8%.

Otherwise, notes receivable pertain to employee housing programs which are expected to be collected within 30 years with interest rates averaging approximately 5.50%.

Notes receivable are recorded at their current unpaid principal balance and associated interest income is accrued based on the principal amount outstanding and applicable interest rates. An allowance for doubtful accounts is recorded which represents the amount which, in the opinion of management of the College, is necessary to account for probable losses related to current notes receivable. This allowance is determined based upon numerous considerations, including economic conditions, the specific composition of the notes receivable balance, as well as trends of delinquencies and write-offs. On a periodic basis, these factors are considered and the allowance for doubtful accounts is adjusted accordingly with a corresponding adjustment to the provision for allowance for doubtful notes and accounts receivable.

Notes and accounts receivable consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Notes receivable	\$ 8,652,531	8,713,736
Accounts receivable	3,377,863	3,194,746
	<u>12,030,394</u>	<u>11,908,482</u>
Less allowance for doubtful accounts	<u>2,480,252</u>	<u>2,208,608</u>
	<u>\$ 9,550,142</u>	<u>9,699,874</u>

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Notes to Financial Statements

June 30, 2006 and 2005

(4) Pledges Receivable

Pledges receivable are expected to be collected as follows at June 30:

		<u>2006</u>	<u>2005</u>
In one year or less	\$	4,488,490	5,256,034
Between one year and five years		4,595,655	6,550,115
		<u>9,084,145</u>	<u>11,806,149</u>
Less:			
Present value discount (4.40% – 8.65%)		705,970	903,862
Allowance for doubtful pledges		1,928,949	117,270
Total	\$	<u><u>6,449,226</u></u>	<u><u>10,785,017</u></u>

As of June 30, 2006 and 2005 the College has not received any conditional promises.

(5) Investments

The fair value and cost of investments by type are as follows at June 30:

	<u>2006</u>		<u>2005</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Common stocks	\$ 163,117,704	120,742,737	153,456,102	116,357,234
Fixed income-bonds	46,703,794	48,024,679	48,975,191	48,060,649
Short-term investments	17,795,202	18,151,661	4,412,165	4,412,165
International private equity	873,465	792,483	498,089	541,357
Venture capital	922,841	978,974	506,772	551,355
Private equity	15,555,836	13,551,380	761,884	786,122
Mortgages and other	517,554	385,764	287,413	271,165
Absolute return funds	30,398,622	26,600,000	55,457,188	49,100,000
Hedged equity funds	32,528,019	30,900,000	20,753,000	20,000,000
Emerging markets funds	13,405,019	6,939,568	12,455,760	5,677,362
Distressed debt	7,155,027	7,000,000	—	—
Total	<u><u>\$ 328,973,083</u></u>	<u><u>274,067,246</u></u>	<u><u>297,563,564</u></u>	<u><u>245,757,409</u></u>

Short-term investments primarily include short-term corporate notes. Included in common stock investments are investments in foreign equities of approximately \$45 million and \$41 million at June 30, 2006 and 2005.

The College utilizes an endowment spending policy which emphasizes total return. Total return consists of current yield (primarily interest and dividends) as well as the realized gains of pooled investments. The College's board of trustees designates a portion of the College's total investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines.

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Notes to Financial Statements

June 30, 2006 and 2005

The following schedule summarizes the investment return and its classification in the statement of activities:

	2006	2005
Interest income and dividends	\$ 3,635,124	3,314,312
Net realized and unrealized gains	33,558,622	25,197,206
Total return on investments	37,193,746	28,511,518
Investment return designated for current operations	16,907,093	17,456,651
Investment return in excess of amounts designated for current operations	\$ 20,286,653	11,054,867

Investment management fees were approximately \$3,451,000 and \$1,929,000 in 2006 and 2005, respectively, and are netted against interest income and dividends.

Endowment net assets, as described in note 1, reflect the current year activity of endowment and similar fund balances. At June 30, 2006 and 2005, endowment and similar funds balances are approximately \$323,992,000 and \$298,300,000, respectively, which includes pooled endowment net assets of approximately \$292,686,000 and \$268,789,000, respectively.

The following is a summary of the changes in the pooled endowment net assets for the years ended June 30:

	2006	2005
Beginning of year pooled endowment, at fair value	\$ 268,788,576	247,353,487
Gifts and other additions:		
Contributions (excluding pledges)	4,822,235	9,607,747
Investment income added to principal	91,170	169,524
Other transfers	1,459,451	2,139,347
Subtotal	6,372,856	11,916,618
Investment income:		
Interest and dividends	2,431,804	2,367,189
Realized gains	28,145,960	13,786,820
Change in unrealized appreciation	4,067,655	9,812,709
Subtotal	34,645,419	25,966,718
Income designated for operating purposes:		
Cash and accrued interest and dividends	2,431,804	2,367,189
Gains used to meet endowment spending	13,198,307	14,081,058
Other transfers	1,491,177	—
Subtotal	17,121,288	16,448,247
End of year pooled endowment, at fair value	\$ 292,685,563	268,788,576

UNION COLLEGE

Notes to Financial Statements

June 30, 2006 and 2005

Endowment net assets are classified as follows at June 30:

	2006	2005
Unrestricted	\$ 194,031,213	174,987,600
Temporarily restricted	362,195	361,133
Permanently restricted	98,292,155	93,439,843
	\$ 292,685,563	268,788,576

Under the terms of certain limited partnership agreements the College is obligated periodically to advance additional funding for certain funds that the College is invested in. At June 30, 2006, the College had commitments of approximately \$15.7 million for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The College maintains sufficient liquidity in its investment portfolio cover such calls.

(6) Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at June 30:

	2006	2005
Land	\$ 101	101
Buildings	132,776,054	131,275,432
Equipment	67,827,552	66,471,367
Improvements other than buildings	34,593,718	30,404,346
Library contents	27,171,972	25,641,023
Construction in progress	9,479,611	6,885,510
	271,849,008	260,677,779
Less accumulated depreciation	(137,039,138)	(127,709,055)
	\$ 134,809,870	132,968,724

Capitalized interest was \$20,019 and \$1,599,475 for the years ended June 30, 2006 and 2005, respectively. Depreciation expense was \$10,190,372 and \$9,736,248 for the years ended June 30, 2006 and 2005, respectively. For the years ended June 30, 2006 and 2005, fixed assets disposed were \$956,422 and \$767,783, respectively.

At June 30, 2006, the College has outstanding contracts totaling approximately \$1,717,976 for the purchase and renovation of certain properties. Completion of these projects will occur within the next two years.

UNION COLLEGE

Notes to Financial Statements

June 30, 2006 and 2005

(7) Long-Term Debt

The following is a summary of long-term debt:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>Outstanding at June 30</u>	
			<u>2006</u>	<u>2005</u>
NYS Dormitory Authority Bonds:				
1992 Issue – Family Loan	2010	4.75-6.30%	\$ 854,015	882,519
1995 Issue – Family Loan	2014	4.10-5.75%	4,095,441	4,766,284
1965 Dormitory Bonds: Fox and Davidson	2015	3%	1,185,000	1,285,000
Industrial Development Agency Bonds:				
1999 Issue – Industrial Development Agency	2029	5.15%-5.45%	14,679,365	14,665,424
2001 Issue – Industrial Development Agency	2032	3.00-5.50%	27,826,920	29,398,796
2003 Issue – Industrial Development Agency	2034	3.75-5.00%	15,804,234	15,781,615
2005 Issue – Industrial Development Agency	2016	3.595% fixed portion and variable portion	3,636,160	—
Total debt			<u>\$ 68,081,135</u>	<u>66,779,638</u>

Interest expense paid on the above long-term debt was \$3,400,264 and \$1,904,471 for 2006 and 2005, respectively.

The face value of the long-term debt was \$70,573,941 and \$69,415,000 at June 30, 2006 and 2005, respectively. The estimated fair value of the long-term debt approximates \$70,100,558 at June 30, 2006, based on prevailing rates presently available to the College.

Proceeds of long-term debt have been used by the College to finance building and construction programs, as well as student loan programs. Certain debt is collateralized by related building projects financed. The family loan issues are collateralized by the repayment of student loans receivable. The College is required to maintain various reserve accounts in conjunction with the debt agreements which are reported as deposits with bond trustees in the statements of financial position. Certain debt is collateralized by municipal bond insurance.

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Notes to Financial Statements

June 30, 2006 and 2005

In December 2005, the College borrowed \$6,150,000 through the Schenectady County Industrial Development Agency utilizing a bank qualified loan through the Bank of America. The Funds are being used to renovate the College's Fitness Center and Music Complex, as well as upgrade the College's power generation through National Grid. As of June 30, 2006, \$3,723,941 was drawn down. A portion of the debt is fixed through a forward swap arrangement, which will commence in January 2007. The fixed rate is 3.595%. The remaining debt is variable based on the 30 day LIBOR rate plus 30 basis points. The portion of the debt related to the National Grid Project, will mature in 2016. The portion of the debt related to the Fitness Center and Music Complex Projects is tied to donor pledges. That portion of the debt will be paid down as pledge payments are received. It is anticipated that this portion of the debt will be paid in full by 2013.

Principal payments of long-term debt are as follows:

Year ended June 30:	
2007	\$ 2,563,868
2008	2,223,868
2009	2,163,868
2010	2,063,867
2011	1,800,364
Thereafter	<u>57,265,300</u>
	<u>\$ 68,081,135</u>

Line of Credit

The College has an unsecured line of credit in the amount of \$5,000,000 with Bank of America, which expires February 23, 2007. Each advance under the line of credit will carry one of two interest rates; a variable rate equal to the Fleet National Bank prime rate minus 2.1% or a fixed rate equal to the one month LIBOR rate plus .5% (adjusted each month). At June 30, 2006, the line of credit was not drawn upon.

(8) Benefit Plans

(a) Retirement Plan

The College has a defined contribution retirement plan under arrangements with Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) which provides for purchases of annuities and investments for all of its faculty members and nonacademic employees.

The College's policy is to fund pension costs which were \$3,844,016 and \$3,665,305 for the years ended June 30, 2006 and 2005, respectively.

(b) Postretirement Plan

The College has also elected to pay for a portion of health care benefits for retired employees based upon years of service at retirement date. The College recognizes the cost of health care benefits on an accrual basis over the working lifetime of employees.

UNION COLLEGE

Notes to Financial Statements

June 30, 2006 and 2005

The Plan's funded status, amounts recognized, significant assumptions used, contributions made, and benefits paid included in the College's financial statements as of June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Change in benefit obligations:		
Benefit obligation at beginning of year	\$ 11,838,580	8,528,990
Service cost	273,160	258,980
Interest cost	432,870	567,440
Actuarial (gain) loss	(4,287,295)	2,961,820
Benefits paid	<u>(409,745)</u>	<u>(478,650)</u>
Benefit obligation at end of year	<u>\$ 7,847,570</u>	<u>11,838,580</u>

Effective January 1, 2005, the Plan was amended to increase participant deductibles and copays for most coverages.

	<u>2006</u>	<u>2005</u>
Components of accrued benefit cost:		
Funded status	\$ (7,847,570)	(11,838,580)
Unrecognized prior service cost	(665,205)	(732,105)
Unrecognized actuarial net loss	<u>2,200,175</u>	<u>6,688,220</u>
Accrued benefit cost	<u>\$ (6,312,600)</u>	<u>(5,882,465)</u>
Weighted average assumption as of June 30:		
Discount rate	6.50%	5.25%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

For measurement purposes, a 9.5% annual rate of increase in the per capital cost of covered health care benefits was assumed for 2007. The rate was assumed to decrease to 7.5% in 2008, to 6.0% in 2009, and then remain constant at 5% for 2010 and thereafter.

	<u>2006</u>	<u>2005</u>
Components of net periodic benefit cost:		
Service cost	\$ 273,160	258,980
Interest cost	432,870	567,440
Amortization of loss	200,745	314,660
Amortization of prior service cost	<u>(66,900)</u>	<u>(66,900)</u>
Net periodic postretirement benefit cost	<u>\$ 839,875</u>	<u>1,074,180</u>

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Notes to Financial Statements

June 30, 2006 and 2005

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 trend rates would have the following effect:

	One percentage point	
	Increase	Decrease
Effect on total of service and interest cost components	\$ 44,092	(37,923)
Effect on postretirement benefit obligation	421,863	(373,221)

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

	Net benefit payments	Subsidy
2007	\$ 447,350	90,160
2008	446,100	100,340
2009	457,500	108,230
2010	491,700	111,700
2011	565,900	72,750
2012-2016	3,299,200	116,300

Impact of Medicare Part D subsidy:

APBO at June 30, 2006	\$ 531,240
Net periodic postretirement benefit cost	74,780

Components of net periodic postretirement benefit cost:

Service cost	\$ 225
Interest cost	30,000
Amortization of unrecognized gain/loss	44,555
Total	\$ 74,780

UNION COLLEGE

Notes to Financial Statements

June 30, 2006 and 2005

(9) Expenses Prior to Allocation

The following table compares expenses, including student aid, for the years ended June 30, 2006 and 2005, prior to the allocation of operations and maintenance of plant, employee benefits, depreciation, and interest expense:

	<u>2006</u>	<u>2005</u>
Instructional department research	\$ 21,535,432	21,027,441
Sponsored research programs	682,689	495,026
Academic support	4,594,471	4,521,062
Student services	3,740,402	3,704,074
Institutional support	11,081,995	11,886,520
Intercollegiate athletics	3,587,182	3,233,899
Student aid	26,142,305	22,505,833
Auxiliaries operations	10,753,453	10,462,274
Other	510,224	472,428
	<u>82,628,153</u>	<u>78,308,557</u>
Total expenses prior to allocation		
Operations and maintenance of plant	9,903,015	8,562,810
Employee benefits	12,731,766	12,488,345
Depreciation	10,190,372	9,736,248
Interest on long-term debt	3,400,264	1,904,471
Amortization of issuance costs	203,511	204,437
	<u>36,428,928</u>	<u>32,896,311</u>
Total allocated expenses		
Total	<u>\$ 119,057,081</u>	<u>111,204,868</u>

Included in Institutional support are \$3,232,271 and \$3,310,358 of fundraising expenses for the years ended June 30, 2006 and 2005, respectively.

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Pledges for instruction, scholarship, facilities, and other departmental support	\$ 2,544,307	5,412,551
Capital projects	1,646,855	871,855
Pooled term endowments	362,195	361,133
Life income and annuity agreements	2,560,887	2,156,168
Funds in trust	3,635,185	3,674,719
	<u>10,749,429</u>	<u>12,476,426</u>
Total	<u>\$ 10,749,429</u>	<u>12,476,426</u>

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Notes to Financial Statements

June 30, 2006 and 2005

Permanently restricted net assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Pledges to endowment for scholarship, and other departmental support	\$ 2,247,131	3,714,677
Pooled endowments	98,292,155	93,439,843
Nonpooled endowments	6,955,137	6,955,137
Life income and annuity agreements	1,830,923	1,261,857
Funds in trust	8,246,974	8,754,648
Total	\$ <u>117,572,320</u>	<u>114,126,162</u>

(11) Collections

The College's collections are made up of approximately 3,000 objects and their estimated fair value is approximately \$17,300,000. The College's policy is not to capitalize its collections. The College's collections are comprised of paintings and portraits, furniture, works on paper, scientific instrumentation, and other objects.

The College's collections are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed periodically. All proceeds resulting from the deaccessioning of objects from the permanent collection are allocated for the benefit of the collections. During the years ended June 30, 2006 and 2005, no objects were deaccessioned.

(12) Contingencies

The College is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of any ultimate liability with respect to those actions will not materially effect the College's financial statements.