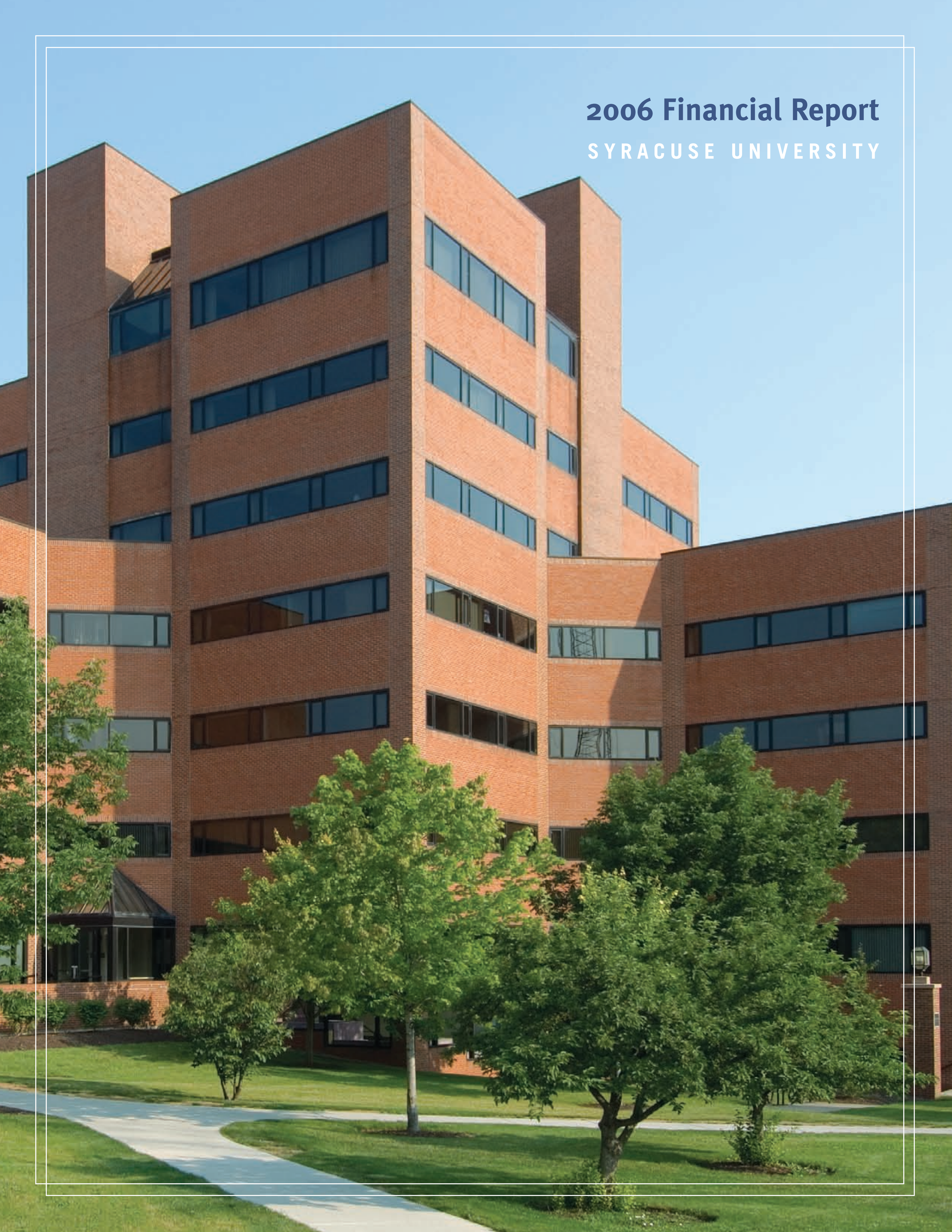
2006 Financial Report

SYRACUSE UNIVERSITY



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Steve Sartori

For Syracuse University, the 2005-06 academic year was an exciting and dynamic time. During the past year, we have brought our vision of *Scholarship in Action* to life, creating new opportunities for students and faculty to learn, discover, and create through deep engagement with communities of experts, here and around the world.

Scholarship in Action encourages faculty excellence and scholarly distinction, attracts enterprising students with diverse backgrounds and experiences to our campus, and creates new opportunities for our students to seize their time here by engaging the world. During this past year, we have forged ahead with a broad array of new programs and initiatives that are achieving these important goals.

Building on the tremendous strengths of our faculty and academic excellence, we are creating national centers of excellence connected to SU. For example, this year we created the Burton Blatt Institute for disability studies, led by Professor Peter Blanck, a nationally recognized scholar in this field. Syracuse University is also the new home of Imagining America, a national consortium of colleges, universities, and cultural institutions dedicated to public scholarship in the arts, humanities, and design.

This year, we broke ground on a $32 million Center of Excellence in Environmental and Energy Systems in downtown Syracuse. Our Center of Excellence is teaming up our students, our outstanding research faculty, and 12 other academic and research institutions with private sector partners from across the world to develop innovative technologies and programs that will improve our environment and public health.

We are attracting enterprising students with diverse backgrounds and experience to our campus through a number of programs, including the Coronat Scholars Program and the Haudenosaunee Promise Scholarship. Coronat is attracting students of the highest academic and personal caliber from throughout world through its highly charged, intellectually demanding program in the College of Arts and Sciences. The Haudenosaunee Promise honors the historical and cultural relationships between the University and Haudenosaunee Native American communities by providing full financial support to all admitted first-year and transfer students who are citizens of the six Haudenosaunee nations.

We are creating new opportunities for our students to go beyond the campus and, working with our faculty, to engage the world—downtown, nationally, and globally. This year we opened The Warehouse—the former Dunk & Bright building in Armory Square, one of the city's most vital downtown neighborhoods. This 135,000-squarefoot building has been transformed, providing community space for art education activities, community use, and artist support and development initiatives. It is also home to SU's School of Architecture, the College of Visual and Performing Arts' communications design and advertising design programs, and the new Goldring Arts Journalism Program.

Our students and faculty are also engaging historically underserved areas of Syracuse, notably the city's South Side, through programs that are helping grow and foster the unrealized potential these neighborhoods hold. For example, our South Side Entrepreneurial Connect Project is developing businesses in the area by connecting our students and faculty who have business and retail expertise with the South Side's untapped entrepreneurial talent. Our Partnership for Better Education is connecting our resources with those of Syracuse city schools by pairing faculty and students from city schools with SU faculty and students to build curriculum in the arts, literacy, and sciences.

Generous alumni have helped us create exciting new immersion programs for students in New York City, Los Angeles, and London. From drama students experiencing a semester on Broadway, to performing arts students spending spring break in Hollywood learning from TV and movie professionals, to the creation of a one-of-a-kind interdisciplinary degree to prepare students for careers in the music and entertainment industries, our students are truly engaging their world.

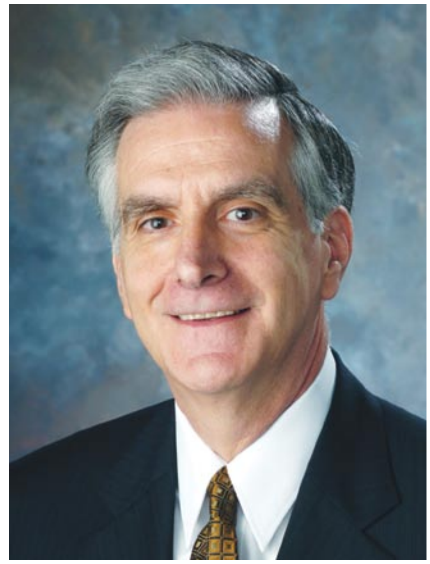
This year we celebrated the opening of Faraday House—our new home in London—and launched a new SU Abroad program that is providing students the unique opportunity to study at the prestigious Tsinghua University in Beijing.

We have also had great success in attracting critical financial support, securing strong support from corporate and philanthropic foundations, federal and state government, our alumni, and from research sponsors.

This past year, we've made tremendous progress in making Syracuse University a place of *Scholarship in Action* and I look forward to joining our students, faculty, staff, alumni and supporters for an even more exiting and challenging year ahead.

Nancy Cantor
Chancellor and President

Fiscal 2006 was a year of change and continued financial growth for Syracuse University.



Steve Sartori

Louis G. Marcoccia
Executive Vice President and Chief Financial Officer

Fiscal 2006 University Facts and Changes

The University continues to attract high-quality students through its commitment to scholarly learning, research, scholarship, creative accomplishment, and service—*Scholarship in Action*. Enrollment at the University totaled more than 18,700 representing undergraduate, graduate, and law students, an increase of more than 3.2%.

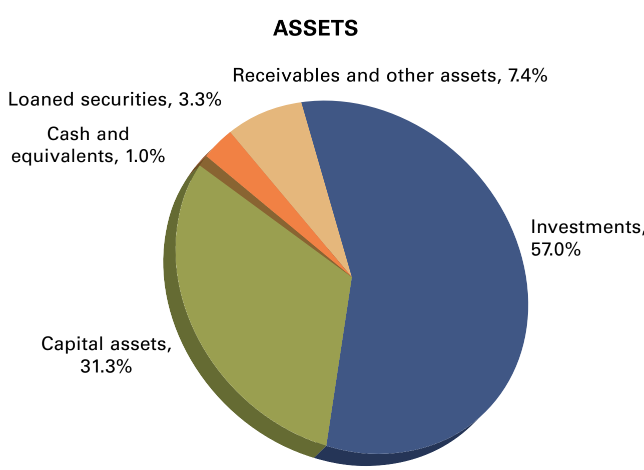
The Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations,* effective for fiscal 2006, requiring financial statement recognition of a liability for tangible long-lived assets that must be retired or disposed of in a specified way by law or contract. This obligation for the University represented the legal requirement for the handling and disposal of asbestos. Adoption of this interpretation resulted in a $22.6 million cumulative effect adjustment in the Statement of Activities. In addition, the Statement of Financial Position reflects a $26.3 million liability and approximately a $2 million net conditional asset retirement obligation, reported in capital assets.

Other major changes occurring during fiscal 2006 included the implementation of Responsibility Center Management budgeting and the implementation of PeopleSoft financials in place of the legacy system.

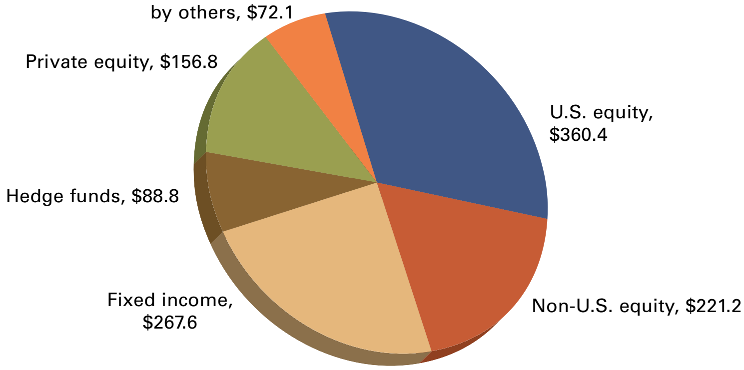
Financial Highlights—Statement of Financial Position

For the first time in its history, the University's total assets exceeded $2 billion. The largest components continue to be investments, and land, land improvements, buildings, equipment, and collections, net (capital assets) of $1.2 billion and $.6 billion, respectively.

The June 30, 2006 asset components are set forth below:



The components of investments, representing more than half of the University's assets, as of June 30, 2006 are summarized below:



During fiscal 2006, in accordance with the University's spending policy, its pooled long-term investment distribution per unit for Pool #1 decreased by 3.3% to $17.95; and its pooled long-term investment distribution per unit for Pool #2 increased modestly by .1% to $19.33.

Gross land, land improvements, buildings, equipment, and collections totaled approximately $1.2 billion at June 30, 2006. Capital asset expenditures exceeded $59.5 million, exclusive of the gross asset retirement obligation of $7.1 million. Major additions included the Center for Science and Technologies (CST) Life Sciences addition, The Warehouse, Slocum Hall School of Architecture renovations, Crouse-Hinds Hall building renovations, Tolley masonry and structural modifications, the School of Management building construction, Brewster-Boland renovations, the Carrier Dome/Lampe Athletics Complex turf, Manley football weight room construction and equipment, the Center of Excellence construction, SU Abroad renovations to Faraday House, Lyman Hall improvements, Hinds Hall School of Information Studies renovations, the Nursing Building improvements, Link Hall, and CST renovations, the Commissary, Brockway housing expansion, major buildings' card/security system, and various real estate acquisitions around the University area.

Steve Parker

Financial Highlights—Statement of Activities

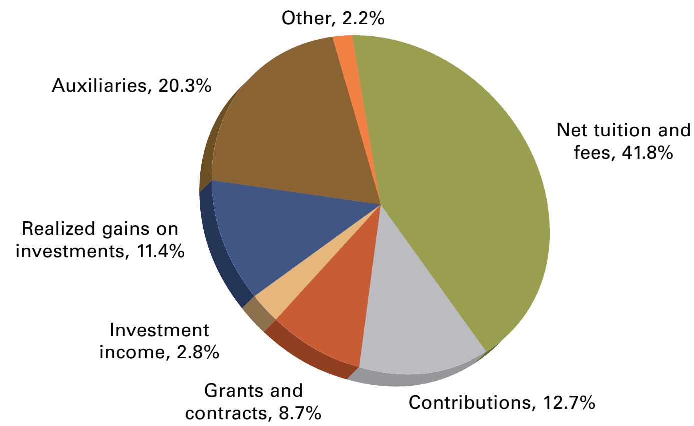
Total revenue for the year ended June 30, 2006 increased to approximately $720 million. The most significant component continues to be net tuition and fees, comprising almost 42% of total revenue. The tuition discount increased slightly to 35.1% and more than half the student population received some level of support.

While revenue increased approximately 12%, expenses increased by only 7.2%.

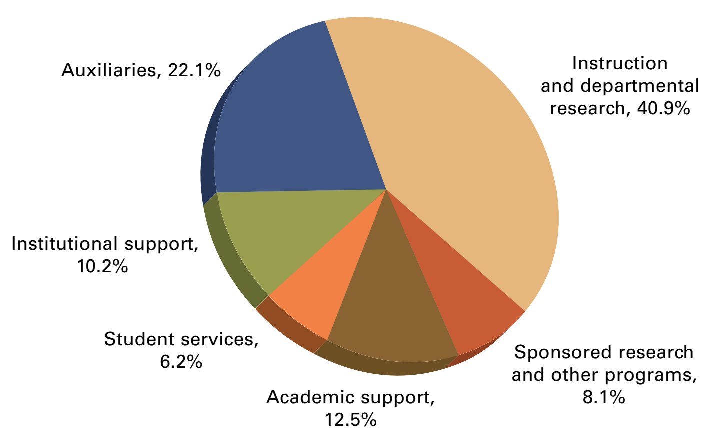
Unrealized changes totaled $45.3 million in gains for the year ended June 30, 2006. This was driven primarily by unrealized gains in the fair value of interest rate swap agreements of $19.3 million and by unrealized gains on investments of approximately $24.6 million.

As noted previously, with the adoption of FASB Interpretation No. 47, the Statement of Activities reflects a cumulative effect adjustment of $22.6 million for the period through June 30, 2005, as well as current year depreciation of $1.6 million on it. Despite this, net assets increased $133.1 million for the year ended June 30, 2006—an increase of more than 100% from the fiscal 2005 increase of $59.2 million.

Fiscal 2006 revenue allocation is summarized below:



The fiscal 2006 allocation among the functional classifications is summarized below:



Recognition

Outstanding financial planning and management services continue to be an important contributor in support of the University's mission and vision. Principal providers of these services include the Administrative Assistant to the Executive Vice President and Chief Financial Officer, Nancy J. Freeman; Comptroller, William F. Patrick; Associate Comptrollers, James M. Crimmer, Leonard M. Granozio, and Robert F. Hartley; Treasurer, Barbara L. Wells; Budget and Planning Director, John B. Hogan; Associate Budget and Planning Director, Gwenn B. Judge; Director of Financial Analysis and Special Assistant to the Executive Vice President and Chief Financial Officer, Rebecca L. Foote; and the excellent staffs of each.

Louis G. Marcoccia
Executive Vice President and Chief Financial Officer

Management is responsible for the integrity and objectivity of the consolidated financial statements of Syracuse University. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and include certain estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Management fulfills its responsibility primarily by establishing and maintaining an internal control structure that is designed to provide reasonable assurance that the University's assets are safeguarded, transactions are executed in accordance with management's authorization, and that the University's financial records may be relied upon for the purpose of preparing financial statements and related disclosures. That system is monitored and assessed by direct management review and by the University's Audit and Management Advisory Services department. In addition, the University recognizes its responsibility for conducting its affairs according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in key policy statements issued from time to time regarding, among other things, conduct of its business activities, a code of ethics for the University's senior financial officers, and disclosure and management of potential conflicts of interest by its trustees and employees. Accordingly, the University maintains programs to assess compliance with those policies.

The University's Board of Trustees Audit Committee appointed KPMG LLP as its independent auditors to audit the University's consolidated financial statements. Their accompanying report is based on audit procedures conducted in accordance with auditing standards generally accepted in the United States of America, which include the consideration of the University's internal controls to establish a basis for determining the nature, timing, and extent of audit tests to be applied. The independent auditors were given unrestricted access to financial records and related data, including minutes of trustees meetings.

The Audit Committee of the Board of Trustees, which consists of trustees who are neither officers nor employees of the University, is responsible for the oversight of the work performed by the independent auditors, oversight of the work performed by the Audit and Management Advisory Services department, as well as overseeing the University's internal control systems and financial reporting processes. The Audit Committee meets with financial management, the independent auditors, and the director of the Audit and Management Advisory Services department to review financial reporting, internal accounting controls, and auditing matters. Both the independent auditors and the director of the Audit and Management Advisory Services department have direct and private access to the Audit Committee.

Nancy Cantor
Chancellor and President

Louis G. Marcoccia
Executive Vice President and Chief Financial Officer

The Board of Trustees, Syracuse University:

We have audited the accompanying statement of financial position of Syracuse University (the University) as of June 30, 2006, and the related statements of activities and cash flows for the year 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 audit.

We conducted our audit 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 University'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 audit provides 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 the University as of June 30, 2006, and the results of its operations and changes in net assets, and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 16, 2006

JUNE 30, 2006

In Thousands of Dollars	
ASSETS	
Cash and cash equivalents	$ 21,424
Loaned securities	67,659
Accounts receivable (less allowance for doubtful accounts of $5.4 million)	22,238
Pledges and bequests receivable	65,796
Other assets	36,806
Loans to students (less allowance for doubtful accounts of $1.0 million)	25,781
Investments	1,166,943
Land, land improvements, buildings, equipment, and collections	642,291
TOTAL ASSETS	**$ 2,048,938**
LIABILITIES	
Loaned securities	$ 67,659
Accounts payable and accrued liabilities	69,518
Deposits and deferred revenues	50,679
Asset retirement obligation	26,286
Accrued postretirement benefits	45,836
Refundable government student loan funds	25,422
Long-term debt	227,667
Total liabilities	513,067
NET ASSETS	
Unrestricted	1,225,603
Temporarily restricted	49,783
Permanently restricted	260,485
Total net assets	1,535,871
TOTAL LIABILITIES AND NET ASSETS	**$ 2,048,938**

See accompanying notes to financial statements.

YEAR ENDED JUNE 30, 2006

In Thousands of Dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Tuition and fees	$ 464,534			$ 464,534
Less: financial aid	163,060			163,060
Net tuition and fees	301,474			301,474
Contributions	26,405	$ 17,018	$ 47,762	91,185
Grants and contracts	62,657			62,657
Investment revenue	20,057	50	365	20,472
Realized gains (losses) on investments	82,312		(4)	82,308
Auxiliaries	146,299			146,299
Other	16,095			16,095
Net assets released from restrictions	13,623	(13,623)		—
Total revenues	668,922	3,445	48,123	720,490
EXPENSES				
Instruction and departmental research	249,715			249,715
Sponsored research and other programs	49,217			49,217
Academic support	76,067			76,067
Student services	37,960			37,960
Institutional support	62,477			62,477
Auxiliaries	134,592			134,592
Total expenses	610,028			610,028
Increase in net assets before unrealized change in fair value of investments, interest rate swap agreements, and foreign currency forward contracts	58,894	3,445	48,123	110,462
Unrealized change in fair value of:				
Investments	23,385	969	204	24,558
Interest rate swap agreements, and foreign currency forward contracts	20,697			20,697
Total unrealized change in fair values	44,082	969	204	45,255
Increase in net assets before cumulative effect of a change in accounting principle	102,976	4,414	48,327	155,717
Cumulative effect of a change in accounting principle	(22,613)			(22,613)
Increase in net assets	80,363	4,414	48,327	133,104
Net assets at beginning of year	1,145,240	45,369	212,158	1,402,767
NET ASSETS AT END OF YEAR	**$ 1,225,603**	**$ 49,783**	**$ 260,485**	**$ 1,535,871**

See accompanying notes to financial statements.

YEAR ENDED JUNE 30, 2006

In Thousands of Dollars	
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	$ 133,104
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Cumulative effect of a change in accounting principle	22,613
Depreciation and amortization	40,783
Realized gains on investments	(82,308)
Unrealized change in fair value of investments	(24,558)
Unrealized change in fair value of interest rate swap agreements and foreign currency forward contracts	(20,697)
Gifts of property and equipment	(6,501)
Contributions restricted for investment	(30,468)
Net change in operating assets and liabilities	(23,163)
Net cash provided by operating activities	8,805
CASH FLOWS FROM INVESTING ACTIVITIES	
Loans to students	(5,920)
Repayment of loans by students	8,028
Purchases of investments	(783,509)
Sales and maturities of investments	746,277
Purchases of land, land improvements, buildings, equipment, and collections	(81,677)
Net cash used in investing activities	(116,801)
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions restricted for investment	30,468
Proceeds from issuance of long-term debt	80,000
Payments of long-term debt principal	(1,384)
Decrease in refundable government student loan funds	(591)
Net cash provided by financing activities	108,493
Net increase in cash and cash equivalents	497
Cash and cash equivalents at beginning of year	20,927
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 21,424**
NON-CASH ACTIVITY	
Capital asset purchases included in accounts payable	$ 5,900
Interest paid	$ 4,888

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared using accrual accounting, and include the accounts of Syracuse University, Syracuse University (USA) London Program, Drumlins, Inc., Syracuse University Press, and Syracuse University Hotel and Conference Center LLC.

(b) Net Asset Classes

The accompanying financial statements present information regarding the University's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets may be designated for specific purposes by the University or may be limited by contractual agreements with outside parties.

Temporarily restricted net assets are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. Temporarily restricted net assets consist principally of gifts restricted by donors for capital projects and other operating purposes, and unconditional pledges receivable that are not permanently restricted.

Permanently restricted net assets are subject to donor stipulations requiring that they be maintained permanently, thereby restricting the use of principal. Usually, donor stipulations allow part or all of the income earned to be used currently for a designated purpose. Permanently restricted net assets consist principally of permanent endowment principal balances, including unconditional pledges.

(c) Contributions

Contributions, including unconditional pledges, are recognized as revenues when donors' commitments are received. Conditional pledges become unconditional and are recognized as revenues when the conditions are substantially met. Unconditional pledges, net of an allowance for uncollectible amounts, are recognized at their estimated net present value, and are classified as either permanently restricted or temporarily restricted. Gifts whose restrictions are met in the same fiscal year as their receipt are reported as unrestricted contribution revenues.

(d) Cash and Cash Equivalents

Cash investments acquired with a maturity date of three months or less are reported as cash equivalents, unless they are part of long-term investment funds.

(e) Investments

Investments are recorded at fair value. The value of publicly traded fixed income and equity securities is based on quoted market prices and exchange rates. Nonmarketable securities include alternative investments such as hedge funds and private equity, which are valued using current estimates of fair value 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 estimates of fair values, because of the inherent uncertainty of valuation for these investments, may differ from the values that would have been used had a ready market existed. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

The University manages long-term investments using the total return concept. The endowment spending policy is designed to stabilize annual spending levels and to preserve the purchasing power of endowment assets.

Realized gains and losses and the unrealized change in fair value of investments are reported separately in the statement of activities.

(f) Land, Land Improvements, Buildings, Equipment, and Collections

Land, land improvements, buildings, equipment, and the library collection are stated at cost or fair value at date of donation, exclusive of the library's special collection, which is recorded at the University's estimate. The art collection is recorded at a capitalized appraised value adjusted for subsequent fair value additions and deletions. Depreciation is recognized using the straight-line method with useful lives of twenty or forty years for buildings, five years for equipment, ten years for library collections, excluding special collections, and one hundred years for art and library special collections. Depreciation expense for buildings and land improvements is included in the statement of activities and allocated to functional classifications based on square footage. In addition, depreciation expense for equipment is allocated to functional classifications based on the functional classifications of the departments in which equipment is located, and depreciation expense for collections is allocated to the academic support functional classification.

(g) Allocation of Certain Expenses

The statement of activities presents expenses by functional classification. Operation and maintenance of plant is allocated based on square footage, and interest expense is allocated based on the functional purpose for which the debt proceeds were used.

(h) Fair Value of Financial Instruments

At June 30, 2006, the carrying value of the University's cash and cash equivalents, receivables, other assets, accounts payable and accrued liabilities, and deposits and deferred revenues approximate their fair values based on their short-term maturities. Additionally, the carrying value of the University's student loans receivable, and indebtedness approximates their carrying values at June 30, 2006, as the underlying interest rates approximate market values.

(i) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include valuation of investments at fair value, estimated net realizable value of receivables, asset retirement obligation, and actuarially determined employee benefit and self-insurance liabilities. Actual results could differ from estimates.

(j) Tax Status

The University and Syracuse University Press, Inc. are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from income taxes pursuant to Section 501(a) of the Internal Revenue Code. Syracuse University Hotel and Conference Center LLC is wholly owned by the University, the activity of which is reported on the University's tax filings. Drumlins, Inc. is a taxable subsidiary of the University, filing its own tax filings. The income tax consequences, if any, from these entities are reflected in the financial statements but do not have a material effect, individually or in the aggregate, upon the University's financial statements. The Syracuse University (USA) London Program, created for the advancement of education, is a registered charity under the laws of England, and, in accordance with U.S. generally accepted accounting principles, is included in the University's financial statements.

(k) Recently Issued Accounting Standards

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, which requires conditional asset retirement obligations to be recognized if a legal obligation exists to perform asset retirement activities and a reasonable estimate of fair value of the obligation can be made. FIN 47 also provides guidance as to when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The University adopted the provisions of FIN 47 in 2006 and recorded a noncash charge for the cumulative effect of a change in accounting principle of $22.6 million in the statement of activities for the year ended June 30, 2006.

(2) Pledges and Bequests Receivable

Unconditional pledges and matured bequests at June 30, 2006 are restricted by donors predominantly for scholarships and other operating purposes. They are expected to be realized in the following periods (in thousands of dollars):

Less than one year	$ 41,011
One year to five years	18,125
More than five years	26,032
	85,168
Allowance for uncollectibility	(4,746)
Present value discount	(14,626)
Total	**$ 65,796**

The discount rates used to present value the pledges range from 3.875% to 6.0%.

emanphoto.com

(3) Investments

The University's investments as of June 30, 2006 are summarized in the following table (in thousands of dollars):

Asset Classes	Cost	Fair Value
U.S. equity	$ 317,151	$ 360,430
Non-U.S. equity	181,726	221,183
Fixed income	276,330	267,571
Hedge funds	70,000	88,772
Private equity	143,252	156,838
Funds held or administered by others	72,136	72,149
Total	**$ 1,060,595**	**$ 1,166,943**

Included in the above table of investments are approximately $245 million 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 general partners.

Within each asset class, the University achieves diversification through allocations to several investment strategies and market capitalizations. Funds held or administered by others includes $54.6 million of restricted cash held by the bond trustee.

At June 30, 2006, the University has investment commitments to private equity partnerships of approximately $157.2 million. The expected capital call amounts for the next six fiscal years are $75.3 million for fiscal year 2007; $51.3 million for fiscal year 2008; $16.5 million for fiscal year 2009; $9.6 million for fiscal year 2010; $3.5 million for fiscal year 2011; and $1.0 million for fiscal year 2012.

	Pool #1	Pool #2
Fair value of pooled long-term investments	$ 836.7 million	$ 34.2 million
Unit fair value for long-term investment pool transactions	$ 504.46	$ 481.81
Annual distribution per unit	$ 17.95	$ 19.33
Pooled long-term investment distribution	$ 44.6 million	$ 1.2 million

Pool #1 investment distribution included $15.1 million to fund academic initiatives and fundraising expenditures. Pool #2 was established to segregate assets that support endowments whose accumulated gains are classified as temporarily restricted, and may not be used for other distribution purposes.

(4) Land, Land Improvements, Buildings, Equipment, and Collections

The following is a summary of land, land improvements, buildings, equipment, and collections at June 30, 2006 (in thousands of dollars):

Land and land improvements	$ 56,807
Buildings and building equipment	879,743
Equipment	72,717
Library and art collections	191,829
	1,201,096
Accumulated depreciation	(558,805)
Total	**$ 642,291**

(5) Long-Term Debt

Long-term debt outstanding at June 30, 2006 is set forth below (in thousands of dollars):

	Calendar Year of Maturity	
Industrial Development Agency—Civic Facility Variable Rate Revenue Bonds		
Series 1999A and 1999B (a)	2029	$ 120,000
Series 2005A and 2005B (b)	2035	80,000
New York State Urban Development Corporation—Mortgage Payable (c)	2026	13,500
Bank Loan (d)	2009	13,970
Other (e)	2010	197
Total		**$ 227,667**

(a) "PARS" (Periodic Auction Reset Securities) bonds that have their interest rates set at weekly auctions. The interest rates at June 30, 2006 were 3.65% for Series 1999A and 3.70% for Series 1999B. The University makes weekly payments of the interest to the bondholders through the trustee. The University may make prepayments of principal, and is required to pay any remaining principal balance on December 1, 2029, the maturity date of the bonds.

(b) "PARS" (Periodic Auction Reset Securities) bonds that have their interest rates set at weekly auctions. The interest rates at June 30, 2006 were 3.70% for Series 2005A and 3.70% for Series 2005B. The University makes weekly payments of the interest to the bondholders through the trustee. The University may make prepayments of principal, and is required to pay any remaining principal balance on December 1, 2035, the maturity date of the bonds.

(c) Interest-free mortgage amortized at the rate of $675,000 annually and collateralized by the University's Science and Technology facility.

(d) Syracuse University Hotel and Conference Center LLC has a loan agreement with JPMorgan Chase Bank that is guaranteed by the University, and bears interest at a rate per annum equal to the adjusted LIBOR rate for the applicable interest period plus 0.55%. At June 30, 2006 the interest rate was 5.675%.

(e) Interest-free loan issued by the New York State Power Authority for the University's energy conservation projects.

Aggregate maturities of long-term debt for the next five fiscal years are $1.4 million for fiscal 2007 and fiscal 2008; $13.3 million for fiscal 2009; and $.7 million for fiscal 2010 and 2011. In addition, fiscal 2006 net interest expense and commissions totaled $4.5 million.

(6) Interest Rate Swap Agreements and Foreign Currency Forward Contracts

The University and the Syracuse University Hotel and Conference Center LLC have entered into interest rate swap agreements to fix interest rates to reduce exposure to interest rate fluctuations. There is no requirement to collateralize the obligations under the swap agreements. Under the agreements the counterparties pay a variable interest rate equal to 68% of the one-month LIBOR rate.

The University pays two counterparties an average fixed interest rate of 3.676% on a total notional amount of $305 million as of June 30, 2006 that relates to its variable rate revenue bonds. The Syracuse University Hotel and Conference Center LLC pays one counterparty a fixed interest rate of 5.303% on a notional amount of $14 million as of June 30, 2006 that relates to its loan with JPMorgan Chase.

At June 30, 2006, the fair value of the University's swap agreements is $9.3 million and the fair value of the Syracuse University Hotel and Conference Center LLC swap agreement is $1.0 million. The total of $10.3 million is included in Other assets.

The increase of $19.3 million in the fair value of the interest rate swap agreements is included in the unrealized change in fair value of interest rate swap agreements and foreign currency forward contracts. The net cash payments of $1 million made under the interest rate swap agreements are included in interest expense.

At June 30, 2006, the University has commitments for foreign currency forward contracts of approximately $20.2 million to manage exchange rate risks for its programs abroad.

(7) Temporarily and Permanently Restricted Net Assets

At June 30, 2006, the detail of temporarily and permanently restricted net asset balances is as follows (in thousands of dollars):

	Temporarily Restricted	Permanently Restricted
Pledges and bequests	$ 29,624	$ 36,206
Other	2,520	891
Funding for facilities	1,230	
Funding for student loans		2,962
Life income, annuity, and similar funds	3,025	5,166
Endowment funds	13,384	215,260
Total net assets	**$ 49,783**	**$ 260,485**

(8) Retirement Plans

Certain full-time and regular part-time employees of the University are eligible for the University's defined contribution plan. The amount contributed by the University to the Teachers Insurance and Annuity Association and College Retirement Equities Fund in fiscal 2006 was approximately $24.3 million.

The University also provides health and life insurance benefits for eligible employees upon retirement at the University's early or normal retirement ages. The cost of these benefits is accounted for in accordance with Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Information with respect to the plans is as follows (in thousands of dollars):

CHANGE IN BENEFIT OBLIGATION	
Benefit obligation at beginning of year	$ 47,013
Service cost	4,206
Interest cost	2,505
Plan participants' contributions	531
Actuarial gain	(2,707)
Benefits paid	(3,383)
Benefit obligation at end of year	**$ 48,165**
Funded status	$ (48,165)
Unrecognized actuarial loss	20,810
Unrecognized prior service cost	(18,481)
Accrued postretirement benefit cost	**$ (45,836)**

Net periodic postretirement benefit cost includes the following components (in thousands of dollars):

Service cost	$ 4,206
Interest cost	2,505
Amortization of net loss	2,239
Amortization of unrecognized prior service cost	(4,040)
Net periodic postretirement benefit cost	**$ 4,910**

For measurement purposes, an 8% and an 11% annual rate of increase in the per capita cost of covered healthcare and prescription drug benefits, respectively, were assumed as of June 30, 2006. The rates were assumed to decrease to 5.0% for healthcare by 2012 and prescription drug benefits by 2014 and remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. Based on actuarial calculations, it is estimated that a one-percentage point change in the healthcare trend rate would have the following effects (in thousands of dollars):

	1-Percentage Point Increase	1-Percentage Point (Decrease)
Effect on total of service and interest cost components	$ 475	$ (796)
Effect on postretirement benefit obligation	$ 2,501	$ (3,986)

Weighted average assumptions used to determine benefit obligations and net periodic postretirement benefit costs for 2006 were as follows:

	Benefit obligations	Net periodic postretirement benefit costs
Discount rate	6.25%	5.00%
Rate of compensation increase	None	None

Contributions to the postretirement benefit plans, net of employee contributions and the Medicare subsidy, are estimated to be $3.0 million for fiscal year 2007.

The net benefits expected to be paid in each year from 2007 through 2011 are approximately $3 million each year. The expected benefits are based on the same assumptions used to measure the University's benefit obligation at June 30, 2006 and include estimated future employee service.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides for a direct government subsidy for employers who continue to offer a retiree drug program that is deemed to be actuarially equivalent to the government plan. The University anticipates that it will qualify for the Medicare Part D prescription drug federal subsidy. In accordance with FASB Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act* (FSP 106-2), the University recorded the impact of the Act in its June 30, 2005 financial statements.

(9) Contingencies and Commitments

The University is involved in legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolution of pending matters will not have a materially adverse effect, individually or in the aggregate, upon the University's financial statements.

The University has a Guaranteed Mortgage Program, which facilitates home ownership by University faculty and staff in neighborhoods immediately east and south of the main campus. The University will guarantee a mortgage loan to qualified faculty or staff in the amount of the purchase price for the home until such time as the loan to value ratio falls below 75%, using the value of the home at the time the loan is closed. Mortgages guaranteed by the University at June 30, 2006 had an aggregate principal amount of approximately $7.7 million. No lending institution has sought payment from the University on any mortgage guaranteed by the University. However, if the University were to pay on a guaranty, the University would receive an assignment of the note and mortgage.

The Syracuse University (USA) London Program leases a building in London, England. The lease has a term of 20 years, commencing in fiscal 2006. The current annual rent is approximately $1.1 million, and is subject to change at specific times during the lease term. The London Program holds options to extend the lease term for two five-year periods. The University is guarantor of the lease obligations of the London Program.

The University has a letter of credit aggregating $9.5 million at June 30, 2006 covering potential claims under the University's workers' compensation plan at June 30, 2006 and there were no outstanding amounts against this letter of credit.

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