

**The Trustees of Columbia University  
in the City of New York**

**Financial Statements**

**June 30, 2006 and 2005**

**Report of Independent Auditors**

To The Trustees of Columbia University in the City of New York:

In our opinion, the accompanying balance sheet and the related statements of activities and cash flows present fairly, in all material respects, the financial position of The Trustees of Columbia University in the City of New York (the "University") at June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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. The prior year summarized comparative information has been derived from the University's June 30, 2005 financial statements, and in our report dated September 21, 2005, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 14, the University adopted the provisions of FASB Interpretation No. 47 and changed its method of accounting for conditional asset retirement obligations.

*PricewaterhouseCoopers LLP*

September 13, 2006

**The Trustees of Columbia University in the City of New York**  
**Balance Sheet**  
**At June 30, 2006, with Comparative June 30, 2005 Totals**  
(in thousands of dollars)

	Total 2006	Total 2005
<b>Assets</b>		
Cash and cash equivalents	\$482,587	\$374,350
Accounts receivable, net:		
Government agencies	75,070	77,795
Patient receivables	73,132	83,911
Other	155,239	156,729
Investment income receivable, net	1,662	4,377
Receivable for securities sold	55,490	39,349
Pledges receivable, net	207,803	175,959
Student loans receivable, net	75,721	74,186
Investments, at market	6,097,245	5,215,675
Institutional real estate	629,368	610,363
Cash and securities held in trust by others	127,039	5,080
Land, buildings, and equipment, net	1,786,303	1,751,049
Other assets	68,457	62,331
Net assets held by CPMC Fund, Inc.	112,255	99,450
Interest in perpetual trusts held by others	136,552	133,897
<b>Total assets</b>	<b>\$10,083,923</b>	<b>\$8,864,501</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$335,868	\$305,427
Liabilities for securities purchased	24,799	37,710
Liabilities for securities sold, but not yet purchased	171,276	126,265
Prepaid tuition and other deferred credits	54,304	67,920
Deferred revenue and unamortized bond premium	66,423	41,582
Refundable advances	68,056	70,460
Capital lease obligations	76,025	74,171
Conditional asset retirement obligations	58,204	
Accrued employee benefit liabilities	92,565	88,577
Federal student loan funds	66,503	66,233
Actuarial liability for split interest agreements	27,137	27,365
Bonds and notes payable	1,214,748	1,032,464
<b>Total liabilities</b>	<b>2,255,908</b>	<b>1,938,174</b>
<b>Net assets</b>		
Unrestricted	5,642,682	4,892,751
Temporarily restricted	640,869	610,293
Permanently restricted	1,544,464	1,423,283
<b>Total net assets</b>	<b>7,828,015</b>	<b>6,926,327</b>
<b>Total liabilities and net assets</b>	<b>\$10,083,923</b>	<b>\$8,864,501</b>

See accompanying notes to financial statements.

**The Trustees of Columbia University in the City of New York**  
**Statement of Activities**  
**For the Year Ended June 30, 2006, with Comparative June 30, 2005 Totals**  
(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	Total 2005
<b>Operating activities</b>					
<b>Revenues and support</b>					
Tuition and fees	\$692,936			\$692,936	\$630,288
Less financial aid grants	(173,328)			(173,328)	(163,288)
Net tuition and fees	519,608			519,608	467,000
Government grants and contracts:					
Direct	497,351			497,351	461,551
Indirect	145,266			145,266	142,071
Private gifts, grants and contracts:					
Direct	250,421	\$70,342		320,763	316,909
Indirect	7,994			7,994	7,411
Revenue from other educational and research activities	419,826			419,826	338,655
Medical faculty practice plan income	395,315			395,315	388,343
Investment income and gains utilized	295,432	717		296,149	264,264
Sales and services of auxiliary enterprises	95,116			95,116	92,438
State aid	3,076			3,076	2,932
Other sources	9,401			9,401	8,704
Net assets released from restrictions	46,383	(46,383)		-	
<b>Total operating revenues and support</b>	<b>2,685,189</b>	<b>24,676</b>		<b>2,709,865</b>	<b>2,490,278</b>
<b>Expenses</b>					
Instruction and educational administration	1,120,584			1,120,584	1,064,127
Research	377,736			377,736	368,357
Medical faculty practice plan expense	369,480			369,480	361,617
Library	57,748			57,748	55,513
Operation and maintenance of plant	130,343			130,343	117,219
Institutional support	141,022			141,022	128,257
Auxiliary enterprises	85,586			85,586	84,683
Depreciation expense	131,847			131,847	139,979
Interest expense	46,335			46,335	41,812
Other	79,352			79,352	37,419
<b>Total expenses</b>	<b>2,540,033</b>			<b>2,540,033</b>	<b>2,398,983</b>
<b>Change in net assets from operating activities</b>	<b>145,156</b>	<b>24,676</b>		<b>169,832</b>	<b>91,295</b>
<b>Nonoperating activities</b>					
Endowment gifts			\$112,454	112,454	85,903
Current year realized and unrealized capital gains (losses)	684,546	56,376	3,708	744,630	710,037
Endowment appreciation utilized	(81,722)	(9,722)		(91,444)	(136,226)
Change in net assets held by CPMC Fund, Inc.	9,942		2,863	12,805	8,063
Change in funds held by others in perpetuity			2,655	2,655	9,974
Present value adjustment to split interest agreements	2,367	(1,917)	(499)	(49)	(1,399)
Additional minimum pension liability	10,236			10,236	(10,236)
Other	(8,688)			(8,688)	
Net assets released from restrictions	38,837	(38,837)		-	
<b>Change in net assets from nonoperating activities</b>	<b>655,518</b>	<b>5,900</b>	<b>121,181</b>	<b>782,599</b>	<b>666,116</b>
<b>Change in net assets before cumulative effect of change in accounting</b>	<b>800,674</b>	<b>30,576</b>	<b>121,181</b>	<b>952,431</b>	<b>757,411</b>
<b>Cumulative effect of change in accounting for FIN 47</b>	<b>(50,743)</b>	-	-	<b>(50,743)</b>	-
<b>Change in net assets after cumulative effect of change in accounting</b>	<b>749,931</b>	<b>30,576</b>	<b>121,181</b>	<b>901,688</b>	<b>757,411</b>
<b>Net assets at beginning of year</b>	<b>4,892,751</b>	<b>610,293</b>	<b>1,423,283</b>	<b>6,926,327</b>	<b>6,168,916</b>
<b>Net assets at end of period</b>	<b>\$5,642,682</b>	<b>\$640,869</b>	<b>\$1,544,464</b>	<b>\$7,828,015</b>	<b>\$6,926,327</b>

See accompanying notes to financial statements.

**The Trustees of Columbia University in the City of New York**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2006, with Comparative June 30, 2005 Totals**  
(in thousands of dollars)

	Total 2006	Total 2005
<b>Cash flows from operating activities</b>		
(Includes adjustments to reconcile change in net assets to net cash provided by operating activities):		
Change in net assets	\$901,688	\$757,411
Cumulative effect of change in accounting for FIN 47	50,743	
Depreciation expense	131,847	139,979
Interest on capital lease obligations	2,949	2,472
Institutional real estate depreciation	13,877	11,406
Realized and unrealized (gains) losses	(744,630)	(710,037)
Contributions restricted for permanent investment, plant, and split interest agreements	(129,454)	(89,396)
Present value adjustments to split interest agreements	49	1,399
Accreted interest on bonds	2,420	2,531
Investment income net of payments on split interest agreements	900	1,377
Change in fair value of net assets held by CPMC Fund, Inc.	(12,805)	(8,063)
Change in fair value of interest in perpetual trusts held by others	(2,655)	(9,974)
Change in operating assets and liabilities:		
Accounts receivable, net	14,994	15,109
Investment income receivable, net	2,715	2,094
Pledges receivable, net	(31,844)	(15,953)
Other assets	(6,126)	(310)
Accounts payable and accrued expenses	30,164	42,065
Prepaid tuition and other deferred credits	(13,616)	3,917
Deferred revenue and unamortized bond premium	24,841	4,489
Refundable advances	(2,404)	(24,936)
Accrued employee benefit liabilities	3,988	901
<b>Net cash (used) provided by operating activities</b>	<b>237,641</b>	<b>126,481</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	3,766,911	1,957,334
Purchases of investments	(3,887,892)	(1,990,424)
Collections from student notes	16,153	13,321
Student notes issued	(17,688)	(18,069)
Investment in cash and securities held in trust by others	(122,499)	60,652
Purchases of institutional real estate	(35,471)	(105,738)
Purchases of plant and equipment	(148,814)	(224,148)
<b>Net cash used by investing activities</b>	<b>(429,300)</b>	<b>(307,072)</b>
<b>Cash flows from financing activities</b>		
Proceeds from contributions for:		
Investment in endowment	95,820	76,546
Investment in plant	31,989	10,026
Investment in split interest agreements	1,645	2,824
Investment income on split interest agreements	1,956	1,841
Payments on split interest agreements	(2,856)	(3,218)
Payments on capital lease obligations	(9,332)	(7,399)
Repayment of bonds and notes payable	(203,921)	(81,492)
Proceeds from bond issuance	384,325	46,500
Net change in federal student loan funds	270	1,281
<b>Net cash provided by financing activities</b>	<b>299,896</b>	<b>46,909</b>
Net change in cash and cash equivalents	108,237	(133,682)
Cash and cash equivalents at beginning of year	374,350	508,032
<b>Cash and cash equivalents at end of year</b>	<b>\$482,587</b>	<b>\$374,350</b>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$57,396	\$50,251

See accompanying notes to financial statements.

# The Trustees of Columbia University in the City of New York

## Notes to the Financial Statements

For the Year Ended June 30, 2006

(All amounts are in thousands of dollars, unless otherwise noted)

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### 1. Organization

The Trustees of Columbia University in the City of New York (the “University”) is a private, nonsectarian, nonprofit institution of higher education whose activities are concentrated at two locations in New York City and extend around the globe. The University provides instruction through sixteen undergraduate, graduate, and professional schools. It operates a variety of research institutes and a library system to support its teaching, learning and research activities. The University performs research, training, and other services under grants and contracts with agencies of the federal government and other sponsoring organizations. The University enrolls approximately 24,400 full-time and part-time students and employs approximately 13,200 full-time employees, including 4,900 full-time faculty members. Of the full-time faculty members, 1,011 hold positions in the arts and sciences; 3,024 hold medical-faculty positions; and the remainder hold positions in the other professional schools.

The University is a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code.

### 2. Columbia University Medical Center

Columbia University Medical Center (“CUMC”), a division of the University, located in the Washington Heights section of northern Manhattan is one of the largest academic medical centers in the United States. It is composed of four schools: College of Physicians and Surgeons, Mailman School of Public Health, School of Dental & Oral Surgery, and School of Nursing. CUMC’s activities also include extensive patient-care services provided by its faculty members.

CUMC has three primary areas of focus: scientific research, education, and patient care. CUMC offers a wide variety of degrees, certifications and continuing education in the health-care field. Sponsored research, faculty patient-care services, medical service agreements, tuition, endowment income, patent royalties and gifts provide the bulk of CUMC’s revenues. Approximately 3,300 students are enrolled at CUMC with a full-time faculty of 2,172, of whom approximately 250 are tenured. Additionally, CUMC’s staff includes 3,169 part time faculty instructors, 1,222 full time researchers and 848 part time researchers. Approximately 70 percent of the full time faculty and 55 percent of the part-time faculty hold clinical appointments and have admitting privileges at NYPH or other hospitals.

CUMC maintains several clinical and education affiliation agreements with other organizations. The most significant affiliation agreements are with the New York-Presbyterian Hospital (“NYPH”), Harlem Hospital and St. Luke’s-Roosevelt Hospital Center. Revenues and expenses from these agreements are accounted for in the operating activities segment of the Statement of Activities.

#### Medical Faculty Practice

During the year, the full-time and part-time clinical faculty handled over 1.3 million outpatient and emergency room visits and participated in instruction and supervision for 600 University medical students and 800 residents and fellows at NYPH. (Most hospital residents and fellows are not enrolled University students.) CUMC physicians generated 63,000 NYPH hospital admissions during the year. In addition, certain faculty physicians provide patient care and supervision of residents at other local hospitals. Payments for patient-care services provided by the full-time faculty are derived mainly from third party payers including managed care companies (60 percent), Medicare (16 percent), commercial insurance (6 percent), Medicaid (3 percent), direct patient payments (12 percent) and other (3 percent).

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**Notes to the Financial Statements**  
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(All amounts are in thousands of dollars, unless otherwise noted)

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**3. Summary of Significant Accounting Policies**

The significant accounting policies of the University are as follows:

**Basis of Consolidation**

The accompanying financial statements of the University include the accounts of all academic and administrative departments of the University. Additionally, the financial statements include the net assets and activities of the following entities, for which the University maintains managerial and financial control:

- Columbia Investment Management Company, LLC—Columbia Investment Management Company, LLC (“CIMC”) is a New York limited liability company formed by the University to manage the University’s investment assets under the supervision of a Board appointed by the Trustees of the University, and subject to the oversight of the Committee on Finance of the Trustees.
- Columbia University Press—Columbia University Press is a not-for-profit corporation formed to promote the study of economic, historical, literary, philosophical, scientific and other subjects and to encourage and promote the publication of literary works embodying original research in such subjects.
- Reid Hall, Inc.—Reid Hall, Inc., located in Paris, France, was donated to the University in 1964. Reid Hall, Inc., a corporation organized under New York membership corporation law as an educational and charitable organization, operates Reid Hall to promote, facilitate, and aid the educational, cultural, and social interests of students studying in France.
- The University holds nine New York limited liability companies, one Delaware not-for-profit corporation, and one Swaziland not-for-profit company to facilitate various program objectives in Africa.

The University provides custodial services and manages all of the assets of Columbia Presbyterian Medical Center Fund, Inc. (“CPMC Fund, Inc.”), a not-for-profit corporation that exists to solicit gifts for the University and NYPH. The financial statements reflect the University’s interest in the net assets of CPMC Fund Inc. as well as the assets and amounts due NYPH.

The University is also the sole corporate member of two not-for-profit physician private practice entities, Columbia Ophthalmology Consultants, Inc. and Columbia University Healthcare, Inc, and, as such, consolidates these entities into the University’s financial statements.

All significant inter-company accounts have been eliminated in consolidation.

**Accrual Basis**

The financial statements of the University have, in all material respects, been prepared on an accrual basis.

**Basis of Presentation**

The University maintains its accounts in accordance with the principles of fund accounting. Under this method of accounting, resources for various purposes are classified into funds that are consistent with activities or objectives specified by donors. Separate accounts are maintained for each fund.

For reporting purposes, the University prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and as such,

**The Trustees of Columbia University in the City of New York**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2006**  
**(All amounts are in thousands of dollars, unless otherwise noted)**

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with the provisions of Statement of Financial Accounting Standards No. 117 (SFAS No.117), *Financial Statements of Not-for-Profit Organizations*. SFAS No.117 requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into three categories of net assets – unrestricted, temporarily restricted and permanently restricted. Descriptions of the three net asset categories and the type of transactions affecting each category follow.

*Unrestricted*—Net assets that are not subject to donor-imposed restrictions. This category includes unrestricted gifts, certain endowment income balances, certain board designated-endowment principal balances including capital appreciation on such balances, certain plant funds, University-designated loan funds, and other unrestricted designated and undesignated current funds.

*Temporarily restricted*—Net assets that are subject to legal or donor-imposed stipulations that will be satisfied either by actions of the University, the passage of time, or both. These net assets include gifts donated for a particular purpose, amounts subject to time restrictions such as funds pledged for future payment, or amounts subject to legal restrictions such as portions of otherwise unrestricted capital appreciation, which must be reported as temporarily restricted in accordance with New York law. Once restrictions are satisfied, those temporarily restricted net assets are released from restrictions, except for temporarily restricted revenue earned and expended in the same fiscal year, which it is recorded as unrestricted revenue.

*Permanently restricted*—Net assets that are subject to donor-imposed stipulations that will be invested to provide a perpetual source of income to the University. Donors of these assets require the University to maintain and invest the original contribution in perpetuity, but permit the use of some or all investment earnings for operating or other purposes.

**Revenues and Expenses**

Revenues are reported as increases in unrestricted net assets unless the use of those assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

**Tuition and Fees and Financial Aid**

Tuition and fees are derived from degree programs as well as executive and continuing education programs. Tuition and fee revenue are recognized as operating income in the period in which it is earned. Tuition and fees receipts received in advance are recorded as deferred revenue. Net tuition and fees are computed after deducting certain scholarships and fellowships awarded to students. In order to assist students in meeting tuition and other costs of attendance, the University administers a variety of federal, state, institutional and private programs. Financial aid packages to students may include direct grants, loans, and employment during the academic year.

**Contributions**

Contributions, including unconditional promises to give (“pledges”), are recognized as operating revenue in the period earned. Pledges that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those pledges are computed using a risk-free interest rate applicable to the year in which the promise was received. Subsequent years’ accretion of the discount is included in contribution revenue. Conditional promises to give are not recognized as revenue until such time as the conditions are substantially met.

**The Trustees of Columbia University in the City of New York**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2006**  
(All amounts are in thousands of dollars, unless otherwise noted)

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**Medical Faculty Practice Plan Income**

The University provides medical care to patients via faculty in CUMC, primarily under agreements with third-party payors. Agreements with third-party payors, including health maintenance organizations, provide payment for medical services at amounts different from standard rates established by the University. Medical faculty practice plan revenue is reported net of two items: (a) contractual allowances from third-party payors for services rendered and (b) estimates of uncollectible amounts.

**Grant and Contract Income**

The University receives grant and contract income from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs as the related costs are incurred. Recovery of facilities and administrative costs of federally sponsored programs are at reimbursement rates negotiated with the University's cognizant agency, the Department of Health and Human Services. The University and the federal government are currently operating under an agreement that provides for facilities and administrative cost rates under federal grants and contracts through June 30, 2007.

**Research and Development**

The University engages in numerous research and development projects, partially or fully sponsored by governmental and private funds. These costs are charged to operating expense as incurred. The University periodically funds and develops patents for certain technologies, then licenses the usage of these patents to companies over several years. The revenue is recorded in revenue from other educational and research activities in the Statement of Activities. Costs incurred with developing and maintaining these patents are expensed as incurred.

**Cash and Cash Equivalents**

Cash and cash equivalents are recorded at fair value and include several depository accounts, checking accounts, institutional money market funds, and similar temporary investments with maturities of three months or less at the date of purchase.

**Investments**

The University's investments, consisting of publicly traded fixed income and equity securities, alternative investments and cash held for reinvestment, are stated at fair value as of June 30. Alternative investments include hedge fund investments ("Hedge Funds"), and private equity and real estate investments ("Private Equity Funds"). The management of the respective fund provides the fair value of the investment.

The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2006. Because alternative investments are not marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements based on the University's proportionate share in the net assets of these investments.

Securities sold, but not yet purchased, represent obligations of the University to deliver specified securities at contracted prices and thereby create a liability to repurchase the securities at prevailing future market prices. Accordingly, these transactions result in off-balance-sheet risk as the University's ultimate obligation to satisfy the sale of securities sold, but not yet purchased, may exceed the amount recognized in the financial statements.

**The Trustees of Columbia University in the City of New York**  
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**For the Year Ended June 30, 2006**  
**(All amounts are in thousands of dollars, unless otherwise noted)**

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The University records purchases and sales of securities on a trade-date basis. Realized gains and losses are determined on the basis of average cost of securities sold and are reflected in the Statement of Activities. Dividend income is recorded on the ex-dividend date, and interest income is recorded on an accrual basis.

**Split-Interest Agreements**

The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and irrevocable charitable remainder trusts for which the University serves as custodian and trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenues for split-interest agreements are recognized at the dates the agreements are established net of the present value of the estimated future payments to be made to the beneficiaries, if applicable, under these agreements. Assets related to these agreements are recorded in "Investments, at Market" and the liability for the net of the present value of the estimated future payments to be made to the beneficiaries is recorded in "Actuarial liability for split-interest agreements." Adjustments to the fair value of these agreements are recorded in the Statement of Activities under "Present value adjustment to split interest agreements."

**Institutional Real Estate**

Institutional real estate consists of properties proximate to the University's Morningside and Washington Heights campuses, the primary purpose of which is to house faculty, staff, and graduate students. The income earned on this investment is used primarily to finance operating expenditures. The properties are valued at cost and depreciated over a useful life of fifty years.

**Land, Buildings, and Equipment**

Land, buildings, and equipment are stated at cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis over useful lives ranging from ten to forty years for buildings and improvements and five to twenty years for equipment, consistent with the method used for government cost reimbursement purposes. Capitalized software costs are amortized over seven years. Upon disposal of assets, the costs and accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

**Other Assets**

Prepaid expenses, bond issuance costs, and the University's equity in the Medical Center Insurance Company ("MCIC") are categorized within other assets. Bond issuance costs are amortized over the expected holding period of the specific debt issue.

**Collections**

Collections at the University include works of art, literary works, historical treasures, and artifacts that are maintained in the University's galleries, libraries, and buildings. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service and, therefore, are not recognized as assets on the Balance Sheet. Costs associated with purchasing additions and maintaining these collections are recorded as operating expenses in the period in which the items are acquired.

**Interest in Perpetual Trusts Held by Others**

The University is the beneficiary of certain perpetual trusts administered by others. These trusts are recognized as permanently restricted contributions upon establishment and adjusted to fair value each year.

**The Trustees of Columbia University in the City of New York**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2006**  
(All amounts are in thousands of dollars, unless otherwise noted)

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**Capital Lease Obligations**

Capital lease obligations are recognized for equipment and space where substantially all of the risks of ownership have been transferred to the University. The obligations extend up to five years for equipment and up to fifty years for space.

**Conditional Asset Retirement Obligations**

Conditional asset retirement obligations, as adopted on June 30, 2006 under Financial Accounting Standards Board ("FASB") Interpretation No. 47 ("FIN 47"), Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143), are recognized for remediation or disposal of asbestos, underground storage tanks and radioactive sources and equipment as required by law. The fair value of the liability for a conditional asset retirement obligation is recognized in the period in which it occurred provided that it can be reasonably estimated.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include valuation of investments without readily determinable public markets, actuarially determined costs associated with split-interest agreements, pension, postemployment and postretirement benefits, contractual allowances for patient receivables, and allowances for doubtful accounts.

**2005 Presentation**

While comparative information is not required under GAAP, the University believes that this information is useful and has included summarized financial information from the financial statements for 2005. This summarized information is not intended to be a full presentation in conformity with GAAP, which would require certain additional information. Accordingly, such information should be read in conjunction with the University's audited financial statements for the year ended June 30, 2005. In addition, certain amounts in the summarized financial statements for fiscal year 2005 have been reclassified to conform to the fiscal year 2006 presentation.

**4. Operating Measurement**

The University divides its Statement of Activities into operating and nonoperating activities. The operating activities of the University include all income and expenses related to carrying out its educational and research mission. Operating revenues include investment income and endowment appreciation utilized to fund current operations, the largest portion of which is the distribution of funds budgeted in accordance with the endowment spending rule.

Nonoperating activities include current year realized and unrealized gains on investments less amounts withdrawn from endowment appreciation to fund operations. Nonoperating activities also include new gifts to permanently restricted endowments, changes in net assets held by CPMC Fund, Inc., changes in perpetual trusts held by others, changes in additional minimum pension liability, and present value adjustments to split interest agreements.

**The Trustees of Columbia University in the City of New York**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2006**  
(All amounts are in thousands of dollars, unless otherwise noted)

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**5. Long-Term Investments**

The following is a summary of the University's investments as of June 30:

	<b>Fair Value</b>	
	<b>2006</b>	<b>2005</b>
U.S. public equities and U.S. equity mutual funds	\$ 541,494	\$ 509,977
Foreign public equities and foreign equity mutual funds	763,108	828,911
Private equity (limited partnerships)	1,635,273	1,200,635
Hedge funds (limited partnerships and corporations)	2,731,938	1,624,968
Fixed income and fixed income mutual funds	294,834	639,105
Cash held for reinvestment	235,939	502,476
Other	897	1,816
Total investment portfolio	6,203,483	5,307,888
Investments included above and held for CPMC Fund, Inc.	(106,238)	(92,213)
Investments, at market	\$ 6,097,245	\$ 5,215,675
<b>Additional balance sheet information</b>		
Receivable for securities sold	\$ 55,490	\$ 39,349
Liabilities for securities purchased	(24,799)	(37,710)
Liabilities for securities sold, not yet purchased	(171,276)	(126,265)

**U.S. Public Equities and Mutual Funds and Foreign Public Equities and Mutual Funds**

The fair value of publicly traded fixed income, equity securities and derivatives investments are based on quoted market prices. Investments that are listed on an exchange are valued, in general, at the last reported sale price (or, if there is no sales price, at the last reported bid price, or, in the absence of reported bid prices, at the mean between the last reported bid and asked prices thereof). If an investment is restricted, the University may discount the price to reflect the nature of the restriction. Fees paid to investment managers are netted against investment income.

**Alternative Investments**

Alternative investments include interests in Private Equity and Hedge Funds. Since Private Equity and some Hedge Funds do not have readily ascertainable market values and may be subject to withdrawal restrictions, the University values these investments in accordance with valuations provided by the general partners of the underlying partnerships. The University's management may consider other factors in assessing the fair value of these investments.

As a rule, the general partners of Private Equity Funds initially value investments held by the Funds at cost and require that changes in value be established by meaningful third-party transactions or a significant impairment in the financial condition or operating performance of the issuer, unless meaningful developments occur that otherwise warrant a change in the valuation of an investment. Such values usually represent the University's proportionate share of the net assets of the Private Equity Funds as reported by the general partners of the underlying partnerships. The values of the investments in the underlying partnerships are increased by additional contributions to the underlying partnerships and the University's share of net earnings from the underlying partnerships

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and decreased by distributions from the underlying partnerships and the University's share of net losses from the underlying partnerships.

Hedge Funds are also valued in accordance with valuations provided by the general partners of the underlying partnerships. Some Hedge Funds do not have readily ascertainable market values and may be subject to withdrawal restrictions. The fair value of the Hedge Funds represents the amount the University expects to receive at June 30, 2006 and 2005, if it had liquidated its investments in the Hedge Funds on these dates.

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2006, the University had unfunded commitments of \$1,514 million, which are likely to be called through 2010.

#### Cash Held for Reinvestment

Cash equivalents included in the portfolio consist primarily of liquid short-term instruments held by the investment pool.

#### Off Balance Sheet Risks

At June 30, 2006 and 2005, the notional amount of long equity futures and swaps held was \$240.9 million and \$151.8 million, respectively. At June 30, 2006, the University also held short equity futures with a notional amount of \$25.2 million. As of June 30, 2006 and 2005, these futures and swaps had a fair value of (\$10.6) million and \$2.8 million, respectively, which have been reflected in Investments, at market on the Balance Sheet.

#### Investment Return

The following schedules summarize the investment return and its reported classification:

	2006			Total
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
Interest and dividend income, net	\$ 154,551			\$ 154,551
Institutional real estate income, net	13,727			13,727
Short-term investment income	35,710	\$ 717		36,427
Realized and unrealized gains, net	684,546	56,376	\$ 3,708	744,630
Total return on investments	\$ 888,534	\$ 57,093	\$ 3,708	\$ 949,335

  

	2005			Total
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
Interest and dividend income, net	\$ 87,069			\$ 87,069
Institutional real estate income, net	20,259			20,259
Short-term investment income	20,300	\$ 410		20,710
Realized and unrealized gains, net	603,740	105,154	\$ 1,143	710,037
Total return on investments	\$ 731,368	\$ 105,564	\$ 1,143	\$ 838,075

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Investment income and gains utilized on the Statement of Activities contains interest and dividend income, institutional real estate revenue net of operating expenses and depreciation, other investment income, and endowment appreciation utilized to fund the spending rule. Endowment appreciation utilized was \$91.4 million and \$136.2 million during 2006 and 2005, respectively. The nonoperating section of the Statement of Activities contains realized and unrealized gains reduced by endowment appreciation utilized to fund the spending rule.

Long-term investments net assets as of June 30 are summarized as follows:

	<b>2006</b>			<b>2005</b>	
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>		
	<b>Net Assets</b>	<b>Net Assets</b>	<b>Net Assets</b>	<b>Total</b>	<b>Total</b>
Endowment funds			\$ 1,251,642	\$ 1,251,642	\$ 1,154,869
Funds functioning as endowment:					
Departmental funds	\$ 2,693,463	\$ 519,839		3,213,302	2,711,403
University funds	1,119,610			1,119,610	986,272
Institutional real estate	319,054			319,054	308,874
Split-interest agreements	2,076	11,476	20,654	34,206	29,146
CPMC Fund Inc.	80,137		32,118	112,255	99,450
Pledge balances			98,249	98,249	81,615
Interests in perpetual trusts held by others			136,552	136,552	133,897
Total net assets of long-term investments	<u>\$ 4,214,340</u>	<u>\$ 531,315</u>	<u>\$ 1,539,215</u>	<u>\$ 6,284,870</u>	<u>\$ 5,505,526</u>

**Institutional Real Estate**

The University owns institutional real estate consisting of various properties proximate to the University's Morningside Heights and Washington Heights campuses. The properties are held for long-term investment purposes but are used primarily to house faculty, staff, and graduate students. The University's accounting policy is to reflect the properties at depreciated historical cost.

**6. Endowment Funds**

The University's endowment consists of approximately 3,800 separate funds established over many years for a wide variety of purposes. Endowment fund balances, including funds functioning as endowment, are classified and reported as either permanently restricted, temporarily restricted, or unrestricted net assets, in accordance with legal or donor imposed stipulations. Net losses on permanently restricted net assets are classified as a reduction to the appreciation recorded in temporarily restricted net assets, to the extent applicable, and then as a reduction to unrestricted net assets.

The University employs a market value unit method of accounting for pooled general investments. Each participating fund enters and withdraws from the pooled investment account based on monthly unit market values. Changes in the market value of investments are distributed proportionately to each fund that participates in the investment pool. Net investment income distributed during the year is allocated on a per unit basis to each participating fund.

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**Endowment Spending Rule**

The endowment spending rule utilized by the University is designed to be directly responsive to both investment returns and the current level of price inflation. Its long-term objectives are:

- To protect the corpus of the endowment by spending no more than the real investment return;
- To cushion spending against market volatility; and
- To provide specific spending instructions and multi-year spending projections based on explicit future investment return assumptions.

The current endowment spending rule is based on two factors: first, the market value multiplied by a 5 percent target spending rate, which provides a response to investment market conditions; and second, the prior year's spending plus inflation, which ties spending increases to operating needs and cushions spending against market volatility.

Each fiscal year's distribution is calculated by adding together the following:

- a. The market value of the endowment at a point twelve months prior to the beginning of the given fiscal year, multiplied by the 5 percent target spending rate, multiplied by a 40 percent weighting; and
- b. Endowment spending in the year immediately preceding year(s), grown or reduced by an inflation factor, which is defined as the Higher Education Price Index ("HEPI"), multiplied by a 60 percent weighting.

The Trustees will conduct a special review in any year in which either projected endowment distributions are more than 0.5 percent higher or lower than the 5 percent target spending rate, or if the increase in endowment distributions over the previous year is more than 3 percentage points higher or lower than HEPI.

**7. Accounts Receivable**

Accounts receivable, net, consists of the following as of June 30:

	<b>2006</b>	<b>2005</b>
Patient receivables, net of contractual allowances	\$ 257,337	\$ 261,196
Government agencies	79,070	81,795
NewYork-Presbyterian Hospital	56,539	65,583
Patent and licensing	26,622	25,024
Student receivables	25,409	27,668
Other receivables, gross	55,068	52,205
	<u>500,045</u>	<u>513,471</u>
Less: Allowance for doubtful accounts	(196,604)	(195,036)
Accounts receivable, net	<u>\$ 303,441</u>	<u>\$ 318,435</u>

Patient receivables for medical services are net of an allowance for contractual reserves in the amount of \$119.6 million and \$118.4 million at June 30, 2006 and 2005, respectively.

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**8. Student Loans Receivable and Financial Aid**

The University participates in various federal loan programs, in addition to administering institutional loan programs. Loans receivable from students as of June 30 are as follows:

	2006	2005
Government revolving loans	\$ 66,503	\$ 66,233
Institutional loans	<u>12,944</u>	<u>11,982</u>
Gross student loans	79,447	78,215
Less: Allowance for doubtful collections	<u>(3,726)</u>	<u>(4,029)</u>
Student loans receivable, net	<u>\$ 75,721</u>	<u>\$ 74,186</u>

In addition to the loans identified above, the University processes and authorizes loans to students through the Stafford Loan program and Federal Plus Loan program. These loans are not recorded in the University's financial statement since the University does not guarantee any federal loan funds related to these programs. The amount of loans issued under these programs was \$159.8 million and \$157.7 million for the years ended June 30, 2006 and 2005, respectively.

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. Advances under the Perkins Loan Program totaled \$60.4 million and \$60.3 million as of June 30, 2006 and 2005, respectively. These advances are classified as liabilities on the Balance Sheet. Interest earned on the revolving and institutional loan programs is reinvested to support additional loans. The repayment and interest rate terms of the institutional loans vary considerably.

Loans receivable under federally guaranteed student loan programs are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

Undergraduate financial aid represents packages for all or part of a student's tuition, fees, room and board. Graduate financial aid represents packages for all or part of a student's tuition and fees.

	2006			2005		
	University Sources	External Sources	Total Financial Aid	University Sources	External Sources	Total Financial Aid
Undergraduate	\$ 38,638	\$ 20,475	\$ 59,113	\$ 33,916	\$ 20,905	\$ 54,821
Graduate	80,654	33,561	114,215	77,571	30,896	108,467
Total financial aid grants	<u>\$ 119,292</u>	<u>\$ 54,036</u>	<u>\$ 173,328</u>	<u>\$ 111,487</u>	<u>\$ 51,801</u>	<u>\$ 163,288</u>

Agency activities such as tuition aid grants, federal supplemental educational opportunity grants, and the federal Pell grant program are not included in the University's financial statements. Receipts from agency transactions were \$8.6 million and \$8.8 million, and disbursements were \$8.7 million and \$9.0 million in fiscal year 2006 and 2005, respectively.

**9. Pledges Receivable**

Unconditional promises to give appear as pledges receivable and revenue of the appropriate net asset category. Pledges are recorded after recognizing an allowance for uncollectible contributions and a discount to reflect the net present value based on projected cash flows.

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The June 30 balances of unconditional promises to give are:

	2006	2005
Less than one year	\$ 81,304	\$ 93,875
One to five years	149,409	99,672
More than five years	<u>20,855</u>	<u>34,184</u>
Total unconditional promises	251,568	227,731
Less: Allowance for doubtful contributions	(12,578)	(27,916)
Less: Net present-value discount	<u>(31,187)</u>	<u>(23,856)</u>
Net pledges receivable	<u>\$ 207,803</u>	<u>\$ 175,959</u>

New pledges recorded in 2006 and 2005 were discounted at average annual rates of 5.2 percent and 3.7 percent, respectively.

Pledges receivable are intended for the following purposes:

	2006	2005
Endowment for educational and general purposes	\$ 98,249	\$ 81,615
New construction and modernization of plant	39,260	38,394
Support of University operations	<u>70,294</u>	<u>55,950</u>
Net pledges receivable	<u>\$ 207,803</u>	<u>\$ 175,959</u>

The University also has other outstanding pledges of \$324.7 million as of June 30, 2006. These pledges represent either conditional gifts for which the probability of meeting the conditions are uncertain, verbal pledges or other pledges that have not met the requirements for recognition.

## 10. Land, Buildings, and Equipment

Investments in land, buildings, and equipment, net, consisted of the following at June 30:

	2006			2005		
	Total Assets	Accumulated Depreciation	Net Assets	Total Assets	Accumulated Depreciation	Net Assets
Land	\$ 104,459		\$ 104,459	\$ 80,706		\$ 80,706
Building and building improvements	2,570,038	\$ 1,043,520	1,526,518	2,442,125	\$ 952,598	1,489,527
Equipment	<u>276,152</u>	<u>120,826</u>	<u>155,326</u>	<u>327,723</u>	<u>146,907</u>	<u>180,816</u>
Total	<u>\$ 2,950,649</u>	<u>\$ 1,164,346</u>	<u>\$ 1,786,303</u>	<u>\$ 2,850,554</u>	<u>\$ 1,099,505</u>	<u>\$ 1,751,049</u>

The University uses componentized depreciation to calculate depreciation expense for buildings and building improvements for research facilities included in operations. The costs of research facilities are separated into the building shell, building service systems, and fixed equipment and each component is separately depreciated.

Equipment includes physical assets owned by the University as well as capitalized software costs and moveable equipment acquired through capitalized leases.

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Building and building improvements include physical assets owned by the University as well as leasehold improvements and capitalized space leases. In 2006, the University undertook an assessment of the classification of leases that were entered into in prior years and were originally treated as operating leases. Certain space leases were determined to be more appropriately classified as capital leases based on their terms and conditions. As such, the June 30, 2005 financial statements have been adjusted to recognize Land, buildings and equipment of \$61.3 million, Capital lease obligations of \$ 61.3 million, and the related impact on the Statement of Activities and Statement of Cash Flows. The impact of recording the adjusted amounts as of June 30, 2005 is not material.

**11. Accrued Employee Benefit Liabilities**

Accrued employee benefit liabilities arise from employment at the University. These include liabilities for postemployment benefits, postretirement benefits, unused vacation and deferred compensation.

Postemployment benefits relating to workers' compensation, short-term disability, and continuation of medical benefits for those on long-term disability are provided to former or inactive employees after employment but before retirement. The University records the costs of such benefits on an accrual basis if the employee has provided the services from which those benefits are derived. In 2006 and 2005, the University recognized actuarially computed liabilities of \$27.1 million and \$26.5 million, respectively.

Postretirement benefits represent the University's postretirement health care and life insurance benefits for certain employees. The University accrues the estimated cost of these benefits over the years that the employees render service. In 2006 and 2005, the University recognized actuarially computed liabilities of \$4.8 million and \$4.9 million, respectively.

**12. Pension and Other Postretirement Benefit Costs**

**Pension Plan Benefits**

Retirement benefits are provided for full-time faculty and officers under a noncontributory defined contribution plan. Contributions are determined as a percentage of each covered employee's salary, factoring in the age and accrued service of each employee. Charges to expenditures under this plan amounted to \$65.5 million and \$57.9 million for the years ended June 30, 2006 and 2005, respectively.

The University has four noncontributory pension plans (the "pension plans") for supporting staff employees. Two of these plans are defined benefit plans for both past and future service. The other two plans provide defined benefits for service prior to January 1, 1976, in one case, and prior to July 1, 1976, in the other, and defined contributions for service thereafter.

All four of these plans are subject to collective bargaining agreements. Charges to expenditures under the Plans amounted to \$9.9 million and \$8.5 million for the years ended June 30, 2006 and 2005, respectively.

**Postretirement Health Care and Life Insurance Benefits**

The University provides postretirement health care and life insurance benefits for certain employees. The University accrues the estimated cost of these benefits over the years that the employees render service.

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In December of 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act), which introduces a prescription drug benefit under Medicare, into law. In January 2004, the Financial Accounting Standards Board (FASB) issued a FASB Staff Position that permitted companies to elect to defer accounting for the effects of the Act. The University elected to defer the Act for 2004. As of June 30, 2005, the University has recognized the effect of the Act in the calculation of its postretirement benefit obligation. This decrease in the University's accumulated postretirement benefit obligation will be reflected in the University's postretirement benefit costs in future periods through amortization of unrecognized gains and losses. Additionally, the service and interest cost components of the postretirement benefits cost will be reduced in future periods.

#### Obligations and Funded Status

The components of accrued benefit costs for pension benefits and other postretirement benefits are as follows:

	Pension Plan Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
<b>Change in benefit obligation:</b>				
Benefit obligation, beginning of year	\$ 90,375	\$ 77,348	\$ 163,716	\$ 148,045
Service cost	3,259	2,575	6,192	4,978
Interest cost	4,823	4,765	8,533	8,804
Assumption changes and actuarial (gain) loss	(9,165)	9,390	(22,612)	9,230
Net disbursements and transfers	(4,017)	(3,703)	(7,401)	(7,341)
Projected benefit obligation, end of year	<u>\$ 85,275</u>	<u>\$ 90,375</u>	<u>\$ 148,428</u>	<u>\$ 163,716</u>
<b>Change in plan assets:</b>				
Fair value of assets, beginning of year	\$ 71,217	\$ 69,146	\$ 89,956	\$ 73,383
Actual return on plan assets	4,738	5,774	10,464	8,497
Employer contributions	3,561		4,856	15,417
Cumulative effect withdrawals				
Net disbursements and transfers	(4,017)	(3,703)		(7,341)
Fair value of assets, end of year	<u>\$ 75,499</u>	<u>\$ 71,217</u>	<u>\$ 105,276</u>	<u>\$ 89,956</u>
<b>Reconciliation of funded status:</b>				
Unfunded status	\$ (9,776)	\$ (19,158)	\$ (43,152)	\$ (73,760)
Amounts not yet recognized:				
Unrecognized net loss	21,939	31,692	38,389	68,904
Unrecognized prior service cost	227	257		
Additional minimum liability		(10,494)		
Intangible Asset		257		
Accumulated other comprehensive income		10,236		
Net amount recognized	<u>\$ 12,390</u>	<u>\$ 12,790</u>	<u>\$ (4,763)</u>	<u>\$ (4,856)</u>

#### Weighted-average assumptions used to determine end of year benefit obligation

	2006	2005
Discount rate	6.25%	5.25%
Rate of compensation increase	5.5%	5.5%

The accumulated benefit obligations for the pension plans at June 30, 2006 and 2005 were \$71.4 million and \$75.4 million, respectively.

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In connection with the benefit obligation calculated above, two out of the four pension plans were required to record \$10.2 million additional minimum pension liabilities as of June 30, 2005; there were no additional minimum pension liabilities as of June 30, 2006. The minimum liabilities resulted from the fair value of the invested assets being less than the accumulated benefit obligation.

At the end of 2006 and 2005, the projected benefit obligation exceeded pension plan assets for two of the four plans. At the end of 2006, the accumulated benefit obligation did not exceed plan assets for any of the pension plans; in 2005, the accumulated benefit obligation exceeded pension plan assets for two of the four plans. The projected benefit obligation and the accumulated benefit obligation for the two plans with a benefit obligation in excess of plan assets were as follows:

	<b>2006</b>	<b>2005</b>
<b>End of year</b>		
Projected benefit obligation	\$ 71,714	\$ 75,018
Accumulated benefit obligation		60,032
Fair value of plan assets	58,033	53,590

At the end of 2006 and 2005, accumulated postretirement benefit obligation for the other postretirement benefit plan, and fair value of plan assets with an accumulated postretirement benefit obligation in excess of plan assets, were as follows:

	<b>2006</b>	<b>2005</b>
<b>End of year</b>		
Accumulated postretirement benefit obligation	\$ 148,428	\$ 163,716
Fair value of plan assets	105,276	89,956

An 8 percent annual rate of increase in the per capita cost of covered health care benefits for the other postretirement benefit plan was assumed for 2005. The rate was assumed to decrease gradually to 5 percent for 2008 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effect:

	<b>1- %-point increase</b>	<b>1- %-point decrease</b>
Effect on accumulated postretirement benefit obligation	\$ 12,929	\$ 10,696

One hundred percent of the pension plans' assets were allocated to the Balanced Growth and Index Fund at June 30, 2006 and 2005. This is also the target allocation for 2007. This fund has guidelines that set targets of 50 percent U.S. equities, 10 percent international equities and 40 percent debt securities. The expected long-term rate of return on the Plans' assets was 8 percent in both 2006 and 2005.

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The asset allocation for the other postretirement benefit plan at June 30, 2006 and 2005, and the target allocation for 2007, by asset category, follows:

Asset category	Target allocation	Percentage of plan assets at year's end	
	2007	2006	2005
U.S. large cap equity	45%	45%	45%
U.S. fixed income	20%	20%	20%
U.S. small cap equity	14%	14%	14%
Emerging markets equity	8%	8%	8%
International equity	8%	8%	8%
Real estate	5%	5%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

### Net Periodic Pension Cost

The components of net periodic benefit cost for pension benefits and other postretirement benefits are as follows:

	Pension Plan Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 3,259	\$ 2,575	\$ 6,192	\$ 4,978
Interest cost on projected benefit obligation	4,823	4,765	8,533	8,804
Expected return on assets	(5,754)	(5,955)	(7,385)	(5,871)
Amortization of transition obligation			2,057	2,057
Amortization of prior service cost	30	45	747	747
Amortization of unrecognized net losses	1,603	503	2,021	1,481
Defined contribution	5,969	6,593		
Net periodic benefit cost	<u>\$ 9,930</u>	<u>\$ 8,526</u>	<u>\$ 12,165</u>	<u>\$ 12,196</u>

### Weighted-average assumptions used to determine net periodic pension cost

	2006	2005
Discount rate	5.25%	6.25%
Expected return on plan assets	8.0%	8.0%
Rate of compensation increase	5.5%	5.5%

The expected rate of return on pension plan assets was developed by evaluating input from investment experts and actuaries as well as long-term inflation assumptions and the pension plans' historical compounded return of approximately 8.25 percent. The pension plans' expected long-term rate of return on plan assets is based on target asset allocation assumptions of 50 percent in U.S. equities, with an expected long-term rate of return of 11.9 percent; 10 percent in non-U.S. equities, with an expected long-term rate of return of 4.1 percent; and 40 percent in fixed income securities, with an expected long-term rate of return of 7.4 percent. The combination of these target allocations and expected returns results in the overall assumed long-term rate of return of 8 percent for 2005 and 2004. The actual asset allocation at June 30, 2005 and 2004, was close to these target

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asset allocations. The University's management regularly reviews the actual asset allocations. The University believes that 8 percent is a reasonable long-term rate of return on plan assets for 2005 and 2004 and will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

The expected rate of return on other postretirement benefit plan assets was developed by evaluating input from investment experts and actuaries as well as long-term inflation assumptions and the historical compounded return of approximately 10.4 percent. The other postretirement benefit plan's expected long-term rate of return on plan assets is based on target asset allocation assumptions of 45 percent in U.S. large cap equities, with an expected long-term rate of return of 11.9 percent; 14 percent in U.S. small cap equities, with an expected long-term rate of return of 11.1 percent; 8 percent in non-U.S. equities, with an expected long-term rate of return of 4.1 percent; 8 percent in emerging market equities, with an expected long-term rate of return of 1.6 percent; 20 percent in fixed income securities, with an expected long-term rate of return of 7.4 percent; and 5 percent in real estate, with expected long-term rate of return of 12.4 percent. The combination of these target allocations and expected returns results in the overall assumed long-term rate of return of 8 percent for 2005 and 2004. The actual asset allocation at June 30, 2005 and 2004, was close to these target asset allocations. The University's management regularly reviews the actual asset allocations. The University believes that 8 percent is a reasonable long-term rate of return on plan assets for 2005 and 2004 and will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plan. A one-percentage-point change in the assumed health care cost trend rates would have had the following effect:

	1- %-point increase	1- %-point decrease
Effect on total service and interest cost	\$ 1,689	\$ 1,346

### Expected Cash Flows

Information about the expected cash flows for the plans is as follows:

	Pension Benefits	Other Postretirement Pension Benefits
<b>University contributions:</b>		
2007 (expected)	\$ 6,000	\$ 12,918
<b>Expected benefit payments:</b>		
2007	\$ 4,514	\$ 8,556
2008	4,649	9,110
2009	4,767	9,558
2010	4,867	9,969
2011	4,964	10,303
2012-2016	32,422	58,104
Total	<u>\$ 56,183</u>	<u>\$ 105,600</u>

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Expected contributions to the other postretirement benefit plan include benefits of \$4.8 million from employer assets in 2007. Total benefits expected to be paid include both the University's share of the benefit cost and the participants' share of the cost, which is funded by participant contributions to the other postretirement benefit plan.

**13. Lease Obligations**

The University is the lessee of various equipment and space under noncancelable operating and capital leases. In 2006, the University undertook an assessment of the classification of leases that were entered into in prior years and were originally treated as operating leases. Certain space leases were determined to be more appropriately classified as capital leases based on their terms and conditions. As such, the June 30, 2005 financial statements have been adjusted to recognize Capital lease obligations of \$ 61.3 million, Land, buildings and equipment of \$61.3 million, and the related impact on the Statement of Activities and Statement of Cash Flows. The impact of recording the adjusted amounts is not material to the June 30, 2005 financial statements. Capital lease obligations at June 30, 2006 were \$76.0 million.

Operating lease rental expense for the year ended June 30, 2006 was approximately \$29.3 million. Space leases contained customary escalation clauses which are included in annual aggregate minimum rentals.

Future aggregate minimum rental payments under operating and capital leases are as follows:

<b>Future minimum rental payments:</b>	<b>Operating</b>	<b>Capital</b>
2007	\$ 29,200	\$ 8,386
2008	21,810	6,397
2009	18,022	5,075
2010	15,855	3,618
2011	14,389	2,981
Thereafter	121,023	157,259
Less: Interest at 3.71 to 4.21 percent		(107,691)
Capital lease obligations at June 30, 2006		<u>\$ 76,025</u>

**14. Conditional Asset Retirement Obligations**

Financial Accounting Standards Board Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143) was issued in March 2005.

FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability.

This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. Based on the guidance in FIN 47, management of the University determined that sufficient information was available to reasonably estimate the fair value of retirement obligations. Upon adoption of FIN 47 on June 30, 2006, the University recognized a liability for conditional asset retirement obligations related to remediation or disposal of asbestos, underground storage tanks and radioactive sources and equipment in the amount of \$58.2 million.

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The transition provisions of FIN 47 required the University to apply this measurement back to the historical periods in which the obligations were incurred (on a net present value basis). This is capitalized as land, buildings and equipment and then depreciated over the estimated remaining useful life of the associated assets. The ending result is a net increase in land, building and equipment of approximately \$7.5 million. The difference is reported as a cumulative effect of a change in accounting principle of approximately \$50.7 million. Had we adopted this interpretation in prior years, the pro forma effect on our net operating income would have been a reduction of \$3.5 million and \$3.2 million in 2006 and 2005, respectively.

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**15. Bonds and Notes Payable**

Bonds and notes payable outstanding at June 30, 2006 and 2005 are as follows:

	<b>2006</b>	<b>2005</b>
Dormitory Authority of the State of New York, tax exempt revenue bonds, Columbia University issues		
Series 2006 A, 4.75% to 5.25%, maturing 2031	\$ 225,000	
Series 2006 B, 3.25% to 5.25%, maturing 2022	156,890	
Series 2004 A1, 4.00%, maturing 2007	9,970	\$ 19,565
Series 2004 A2, 5.00%, maturing 2014	46,500	46,500
Series 2004 B, 3.00% to 5.125%, maturing 2024	94,305	97,205
Series 2004 C, 5.00%, maturing 2029	50,000	50,000
Series 2003A, 3.00% to 5.125%, maturing 2024	79,355	82,245
Series 2003B, variable rate, 2.18%, maturing 2028	30,000	30,000
Series 2002A, 3.00% to 5.25%, maturing 2014	33,030	33,205
Series 2002B, 3.75% to 5.375%, maturing 2024	46,945	88,945
Series 2002C, variable rate, 2.39% to 2.75%, maturing 2027	23,300	23,300
Series 2000A, 4.10% to 5.25%, maturing 2025	49,730	107,860
Series 1998, 4.50% to 5.50%, maturing 2022		64,850
Series 1994A, 5.75%, maturing 2010	31,925	31,925
Series 1992, 5.625% to 5.75%, maturing 2007	4,060	7,905
	<u>881,010</u>	<u>683,505</u>
Dormitory Authority of the State of New York, tax-exempt commercial paper		
Series 1997, variable rate, 2.37% to 2.93%, final maturity 2015	44,295	48,735
New Jersey Economic Development Corporation		
Series 2002, variable rate, 2.37% to 2.60%, final maturity 2028	9,545	9,850
United States Department of Education Housing Program Issues:		
1991, 5.50%, maturing 2021 *	1,747	1,859
1990, 3.00%, maturing 2020 *	2,170	2,229
Medium-Term Notes, Taxable Series C 6.25% to 7.36%, maturing 2021	174,390	183,800
Empire State Development Corporation Issues:		
Interest-free, maturing 2029	8,821	8,945
Interest-free, maturing 2010	6,179	5,775
Economic Development Corporation		
Interest-free, maturing 2010	7,629	7,130
Taxable commercial paper, variable rate, 3.08% to 3.33%, due 2005	64,380	65,680
Dormitory Authority of the State of New York College and University Education Loan Revenue Bonds		
Series 1993, 5.35% to 5.65%, maturing 2013	5,318	6,662
Series 1992, 6.75% to 6.80%, maturing 2013	4,369	5,294
Promissory Note, 8%, maturing 2010	3,000	3,000
Promissory Note, 11%, maturing 2007	1,895	
	<u>333,738</u>	<u>348,959</u>
Total bonds and notes payable	<u>\$ 1,214,748</u>	<u>\$ 1,032,464</u>

\* *Principal fully collateralized by investments.*

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Estimated Principal Payments on bonds and certificates are summarized below:

<b>Year</b>	<b>Principal</b>
2007	\$ 46,678
2008	61,543
2009	61,175
2010	84,003
2011	67,018
Thereafter (through 2031)	<u>894,331</u>
Total	<u>\$ 1,214,748</u>

At June 30, 2006, the University's bonds and notes payable had a carrying amount of approximately \$1,214.7 million, compared to an estimated fair value of \$1,267.4 million. The estimated fair value of bonds and notes payable was calculated using a discounted cash flow method, where the estimated cash flows were based on contractual principal and interest payments. The discount rates used were based on the University's borrowing rate for similar obligations. Fair values represent the lower of the estimated value at call or maturity of each respective issue.

The University may offer from time to time up to \$400 million aggregate principal amount of Medium-Term Notes. As of June 30, 2006, \$174.4 million was outstanding. The University also has a \$100 million taxable commercial paper program. As of June 30, 2006, \$64.4 million was outstanding.

The University issues most of its tax-exempt debt through the Dormitory Authority of the State of New York ("DASNY"). On June 8, 2005, the University reoffered its DASNY Series 2004 A2 bonds. As a result, the University re-priced \$46.5 million in series 2004 A2 bonds at an average yield of 3.3% and retired \$5.4 million of the original debt. On January 18, 2006, the University issued \$225.0 million of Series 2006A bonds and \$156.9 million of Series 2006B bonds. The proceeds from Series 2006A were used to finance various construction and renovation projects. The proceeds from Series 2006B were used to advance refund a portion of DASNY's Columbia University Revenue Bonds, Series 1998, Columbia University Revenue Bonds, Series 2000A, and Columbia University Revenue Bonds, Series 2002B. The refunded bonds were legally defeased and, as such, are not reflected in Bonds and notes payable at June 30, 2006. Advance refunding these issues resulted in additional bond principal of \$540 thousand and an accounting charge of \$8.7 million. The accounting charge represents the prepayment of interest and the expensing of deferred bond premiums on the extinguished issues. Series 2006A and Series 2006B were issued at a premium of \$25.0 million, which will be amortized over 10 years.

The University has certain financial and administrative covenants with which it was in compliance as of June 30, 2006 and 2005.

**16. Insurance**

In connection with managing financial risks through various third-party insurance programs, the University is self-insured in certain areas. Funded self-insurance liabilities primarily cover deductibles on general liability and property insurance claims. Self-insurance liabilities are actuarially calculated on an annual basis. The University has recorded self-insurance liabilities of approximately \$86.5 million and \$81.9 million as of June 30, 2006 and 2005, respectively. The University's core liability coverage is purchased through Pinnacle RRG, a Vermont based risk retention group with 15 other universities.

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The University obtains medical malpractice insurance, in part, through MCIC. MCIC is a group captive insurance company owned by the University, Johns Hopkins, Yale, Rochester, and Weill Cornell Medical School and their respective major teaching hospitals, including NYPH. More than 800 of the University's faculty physicians and dentists are enrolled in MCIC.

**17. Related Party Transactions**

The University maintains several clinical and education affiliation agreements with other organizations. Revenues and expenses from these agreements are accounted for in the operating activities segment of the Statement of Activities. The most significant affiliation agreement is with the NYPH.

The University has an alliance dating back to 1921 with Presbyterian Hospital, which merged with New York Hospital effective January 1, 1998, and formed the new corporate entity called NewYork-Presbyterian Hospital. The University provides medical, professional, supervisory staff, and various other technical assistance and is reimbursed by NYPH. NYPH provides funding to the clinical departments for several specific purposes, including administration, supervision, and teaching of the NYPH resident staff and salary support for faculty and staff providing services to NYPH. In addition, NYPH provides partial funding for clinical programs that the University and NYPH would like to see developed or expanded. NYPH also provides the departments with certain facilities and services (outpatient faculty practice offices, nursing, telecommunications, etc.) for which the University is invoiced on a monthly basis. Finally, the University and NYPH collaborate and fund joint projects for which specific agreements are negotiated.

The University and NYPH negotiated a joint budget, which forms the basis for the reimbursement agreement. The final fiscal year 2006 joint budget was approximately \$119 million. The payments to NYPH for goods and services were \$56 million. The revenues received pursuant to this reimbursement arrangement for services rendered are reflected in the financial statements as a portion of revenue from other educational and research activities and medical faculty practice plan income. NYPH provides the University with the use of certain facilities and certain services and is reimbursed for its costs by the University.

The University records both receivables from and payables to NYPH on the Balance Sheet. The University has no liability for obligations and debt incurred by NYPH.

The University has financial arrangements with several for-profit physician professional corporations ("PCs"), whereby the University provides facilities and other services to these PCs for a negotiated fee. These PCs provide clinical services to patients and are owned and controlled by physicians who are also faculty members of the University. These noncontrolled PCs generated revenue of approximately \$47 million and \$48 million during fiscal year 2006 and 2005, respectively, which has not been consolidated into the University's financial statements. The University is also the sole corporate member of two not-for-profit physician private practice entities and, as such, consolidates these entities into the University's financial statements.

**18. Contingencies and Commitments**

From time to time, various claims and suits generally incident to the conduct of normal business are pending or may arise against the University.

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In the opinion of counsel and management of the University, after taking into account insurance coverage, losses, if any, from the resolution of pending litigation should not have a material effect on the University's financial position or results of operations.

All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from audits of government grants and contracts by government agencies, claims, and suits is presently not determinable, it should not, in the opinion of counsel and management, have a material effect on the University's financial position or results of activities.

The University has entered into contracts to purchase properties with an aggregate value of \$69.9 million. As of June 30, 2006, approximately \$58.9 million is still outstanding.

**19. Expense Allocation by Program**

Expenses are reported for the University's primary program activities. The financial statements also report certain categories of expenditures that support more than one major program of the University. These expenses include operation and maintenance of plant, depreciation expense, and interest expense.

These costs are allocated to the applicable program activities as indicated in the following chart:

	2006			2005		
	Expenses per Statement of Activities	Allocation	Final Allocated Expenses	Expenses per Statement of Activities	Allocation	Final Allocated Expenses
Instruction and educational administration	\$ 1,120,584	\$ 167,002	\$ 1,287,586	\$ 1,064,127	\$ 161,992	\$ 1,226,119
Research	377,736	55,835	433,571	368,357	53,071	421,428
Medical faculty practice plans	369,480	10,854	380,334	361,617	10,294	371,911
Library	57,748	44,992	102,740	55,513	44,787	100,300
Operation and maintenance of plant	130,343	(130,343)	-	117,219	(117,219)	-
Institutional support	141,022	16,843	157,865	128,257	16,541	144,798
Auxiliary enterprises	85,586	12,697	98,283	84,683	12,062	96,745
Depreciation expense	131,847	(131,847)	-	139,979	(139,979)	-
Interest expense	46,335	(46,335)	-	41,812	(41,812)	-
Other	79,352	302	79,654	37,419	263	37,682
Total	<u>\$ 2,540,033</u>		<u>\$ 2,540,033</u>	<u>\$ 2,398,983</u>		<u>\$ 2,398,983</u>

The allocation of operation and maintenance of plant is based on square footage occupancy. Depreciation expense includes depreciation of buildings and building improvements and equipment. The allocation of depreciation on buildings and building improvements is based on square footage occupancy. Depreciation on equipment is allocated to the programs for which the equipment was purchased. Interest expense is allocated according to the same methodologies used for building depreciation.