

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

**Consolidated Financial Statements  
June 30, 2012 and 2011**



## Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated 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, 2012, 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, 2011 financial statements, and in our report dated October 21, 2011, 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.

*PricewaterhouseCoopers LLP*

October 16, 2012

**The Trustees of Columbia University in the City of New York**  
**Consolidated Balance Sheets**  
**At June 30, 2012, with Comparative Totals at June 30, 2011**  
(in thousands of dollars)

|   | June<br>2012        | June<br>2011        |
|---|---------------------|---------------------|
| <b>Assets</b>                                     |                     |                     |
| Cash and cash equivalents                         | \$434,635           | \$254,444           |
| Accounts receivable, net:                         |                     |                     |
| Government agencies                               | 119,189             | 116,054             |
| Patient receivables                               | 71,770              | 67,999              |
| Other   | 193,869             | 183,354             |
| Investment income receivable, net                 | 2,130               | 3,035               |
| Receivable for securities sold                    | 32,942              | 56,759              |
| Cash and securities held in trust by others       | 88,092              | 119,415             |
| Pledges receivable, net                           | 920,195             | 882,704             |
| Student loans receivable, net                     | 93,313              | 87,959              |
| Collateral for securities loaned                  | 30,536              | 9,681               |
| Investments, at fair value                        | 7,591,982           | 7,901,194           |
| Institutional real estate                         | 815,379             | 800,023             |
| Land, buildings, and equipment, net               | 2,906,411           | 2,710,218           |
| Other assets                                      | 194,366             | 160,159             |
| Net assets held by CPMC Fund, Inc.                | 78,914              | 89,860              |
| Interest in perpetual trusts held by others       | 153,168             | 161,256             |
| <b>Total assets</b>                               | <b>\$13,726,891</b> | <b>\$13,604,114</b> |
| <b>Liabilities</b>                                |                     |                     |
| Accounts payable and accrued expenses             | \$232,340           | \$254,112           |
| Liabilities for securities purchased              | 10,026              | 29,022              |
| Securities loan agreement payable                 | 30,536              | 9,681               |
| Prepaid tuition and other deferred credits        | 64,319              | 42,248              |
| Deferred revenue and unamortized bond premium     | 89,901              | 63,742              |
| Refundable advances                               | 85,820              | 90,908              |
| Capital lease obligations                         | 114,421             | 114,756             |
| Conditional asset retirement obligations          | 106,282             | 105,291             |
| Accrued employee benefit liabilities              | 229,928             | 182,253             |
| Federal student loan funds                        | 79,603              | 78,889              |
| Actuarial liability for split-interest agreements | 41,444              | 45,010              |
| Bonds and notes payable                           | 1,535,900           | 1,539,160           |
| Other long term liabilities                       | 454,320             | 386,736             |
| <b>Total liabilities</b>                          | <b>3,074,840</b>    | <b>2,941,808</b>    |
| <b>Net assets</b>                                 |                     |                     |
| Unrestricted                                      | 4,661,233           | 4,763,715           |
| Temporarily restricted                            | 3,685,376           | 3,726,513           |
| Permanently restricted                            | 2,305,442           | 2,172,078           |
| <b>Total net assets</b>                           | <b>10,652,051</b>   | <b>10,662,306</b>   |
| <b>Total liabilities and net assets</b>           | <b>\$13,726,891</b> | <b>\$13,604,114</b> |

See accompanying notes to financial statements.

**The Trustees of Columbia University in the City of New York**  
**Consolidated Statements of Activities**  
**For the Year Ended June 30, 2012, with Comparative Totals at June 30, 2011**

(in thousands of dollars)

|  | Unrestricted       | Temporarily<br>Restricted | Permanently<br>Restricted | June<br>2012        | June<br>2011        |
|--|--------------------|---------------------------|---------------------------|---------------------|---------------------|
| <b>Operating activities</b>                                    |                    |                           |                           |                     |                     |
| <b>Revenues and support</b>                                    |                    |                           |                           |                     |                     |
| Tuition and fees   | \$1,084,831        |                           |                           | \$1,084,831         | \$1,011,632         |
| Less financial aid grants                                      | (298,949)          |                           |                           | (298,949)           | (282,102)           |
| Net tuition and fees   | 785,882            |                           |                           | 785,882             | 729,530             |
| Government grants and contracts:                               |                    |                           |                           |                     |                     |
| Direct   | 658,384            |                           |                           | 658,384             | 675,320             |
| Indirect   | 199,203            |                           |                           | 199,203             | 207,661             |
| Private gifts, grants and contracts:                           |                    |                           |                           |                     |                     |
| Direct   | 233,460            | 198,197                   |                           | 431,657             | 978,456             |
| Indirect   | 16,916             |                           |                           | 16,916              | 15,293              |
| Revenue from other educational and<br>research activities      | 196,177            | 6,058                     |                           | 202,235             | 182,184             |
| Patient care revenue   | 866,736            |                           |                           | 866,736             | 807,092             |
| Investment income and gains utilized                           | 309,187            | 111,998                   |                           | 421,185             | 395,872             |
| Sales and services of auxiliary enterprises                    | 121,687            |                           |                           | 121,687             | 115,878             |
| Other sources  | 8,388              |                           |                           | 8,388               | 7,810               |
| Net assets released from restrictions                          | 199,499            | (199,499)                 |                           |                     |                     |
| <b>Total operating revenues and support</b>                    | <b>3,595,519</b>   | <b>116,754</b>            |                           | <b>3,712,273</b>    | <b>4,115,096</b>    |
| <b>Expenses</b>  |                    |                           |                           |                     |                     |
| Instruction and educational administration                     | 1,242,689          |                           |                           | 1,242,689           | 1,179,399           |
| Research   | 578,151            |                           |                           | 578,151             | 559,326             |
| Patient care expense   | 740,486            |                           |                           | 740,486             | 718,552             |
| Library  | 61,700             |                           |                           | 61,700              | 61,284              |
| Operation and maintenance of plant                             | 224,614            |                           |                           | 224,614             | 223,670             |
| Institutional support  | 210,091            |                           |                           | 210,091             | 226,643             |
| Auxiliary enterprises  | 92,604             |                           |                           | 92,604              | 87,986              |
| Depreciation expense   | 191,470            |                           |                           | 191,470             | 175,248             |
| Interest expense   | 57,117             |                           |                           | 57,117              | 59,086              |
| Other  | 26,139             |                           |                           | 26,139              | 23,621              |
| <b>Total expenses</b>  | <b>3,425,061</b>   |                           |                           | <b>3,425,061</b>    | <b>3,314,815</b>    |
| <b>Change in net assets from operating activities</b>          | <b>170,458</b>     | <b>116,754</b>            |                           | <b>287,212</b>      | <b>800,281</b>      |
| <b>Nonoperating activities</b>                                 |                    |                           |                           |                     |                     |
| Endowment gifts  |                    |                           | 114,793                   | 114,793             | 97,965              |
| Current year realized and unrealized capital<br>gains (losses) | (56,639)           | 26,915                    | (755)                     | (30,479)            | 1,445,868           |
| Endowment appreciation utilized                                | (118,554)          | (183,915)                 |                           | (302,469)           | (288,428)           |
| Change in net assets held by CPMC Fund, Inc.                   | (2,921)            | (6,577)                   | (1,448)                   | (10,946)            | 16,284              |
| Change in funds held by others in perpetuity                   |                    |                           | (8,088)                   | (8,088)             | 25,211              |
| Present value adjustment to split-interest agreements          | (151)              | 354                       | 2,704                     | 2,907               | (769)               |
| Changes in pension and post retirement obligations             | (56,415)           |                           |                           | (56,415)            | 66,599              |
| Other  | (6,770)            |                           |                           | (6,770)             |                     |
| Reclassification   | (31,490)           | 5,332                     | 26,158                    |                     |                     |
| <b>Change in net assets from nonoperating activities</b>       | <b>(272,940)</b>   | <b>(157,891)</b>          | <b>133,364</b>            | <b>(297,467)</b>    | <b>1,362,730</b>    |
| <b>Change in net assets</b>                                    | <b>(102,482)</b>   | <b>(41,137)</b>           | <b>133,364</b>            | <b>(10,255)</b>     | <b>2,163,011</b>    |
| <b>Net assets at beginning of year</b>                         | <b>4,763,715</b>   | <b>3,726,513</b>          | <b>2,172,078</b>          | <b>10,662,306</b>   | <b>8,499,295</b>    |
| <b>Net assets at end of period</b>                             | <b>\$4,661,233</b> | <b>\$3,685,376</b>        | <b>\$2,305,442</b>        | <b>\$10,652,051</b> | <b>\$10,662,306</b> |

See accompanying notes to financial statements.

**The Trustees of Columbia University in the City of New York**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2012 and 2011**  
(in thousands of dollars)

|  | June<br>2012     | June<br>2011     |
|--|------------------|------------------|
| <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   | (\$10,255)       | \$2,163,011      |
| Depreciation expense   | 191,470          | 175,248          |
| Interest on capital lease obligations and CARO   | 10,925           | 11,008           |
| Institutional real estate depreciation   | 19,871           | 19,406           |
| Realized and unrealized (gains) losses   | 30,479           | (1,445,868)      |
| Partnership distributions  | 315,946          | 307,087          |
| Contributions restricted for permanent investment, plant, and split-interest agreements                | (194,434)        | (99,707)         |
| Contributions other than cash  | (15,034)         | (45,022)         |
| Present value adjustments to split-interest agreements   | (1,009)          | 229              |
| Accreted interest on bonds   | 906              | 976              |
| Change in fair value of net assets held by CPMC Fund, Inc.   | 10,946           | (16,284)         |
| Change in fair value of interest in perpetual trusts held by others                                    | 8,088            | (25,211)         |
| Change in operating assets and liabilities:  |                  |                  |
| Accounts receivable, net   | (17,421)         | 24,061           |
| Investment income receivable, net  | 905              | (13)             |
| Pledges receivable, net  | (37,491)         | (619,047)        |
| Other assets   | (34,207)         | (99,430)         |
| Accounts payable and accrued expenses  | (29,460)         | 1,098            |
| Prepaid tuition and other deferred credits   | 22,071           | 7,133            |
| Deferred revenue and unamortized bond premium  | 26,159           | 8,015            |
| Refundable advances  | (5,088)          | (6,633)          |
| Accrued employee benefit liabilities   | 47,675           | (69,668)         |
| Other long-term liabilities  | 17,924           | 110,290          |
| <b>Net cash provided by operating activities</b>   | <b>358,966</b>   | <b>400,679</b>   |
| <b>Cash flows from investing activities</b>  |                  |                  |
| Proceeds from sales of investments   | 3,231,487        | 4,360,484        |
| Purchases of investments   | (3,201,653)      | (4,561,067)      |
| Collections from student notes   | 10,188           | 11,714           |
| Student notes issued   | (15,542)         | (11,158)         |
| Investment in cash and securities held in trust by others  | 31,323           | (116,590)        |
| Purchases of institutional real estate   | (33,999)         | (34,051)         |
| Purchases of plant and equipment   | (381,331)        | (295,286)        |
| <b>Net cash used by investing activities</b>   | <b>(359,527)</b> | <b>(645,954)</b> |
| <b>Cash flows from financing activities</b>  |                  |                  |
| Proceeds from contributions for:   |                  |                  |
| Investment in endowment  | 107,597          | 82,123           |
| Investment in plant  | 32,035           | 15,865           |
| Investment in split-interest agreements  | 54,802           | 1,719            |
| Investment income on split-interest agreements   | 3,442            | 6,126            |
| Payments on split-interest agreements  | (5,999)          | (5,871)          |
| Payments on capital lease obligations  | (7,673)          | (8,702)          |
| Repayment of bonds and notes payable   | (392,101)        | (194,949)        |
| Proceeds from bond issuance  | 387,935          | 400,000          |
| Net change in federal student loan funds   | 714              | 584              |
| <b>Net cash provided by financing activities</b>   | <b>180,752</b>   | <b>296,895</b>   |
| Net change in cash and cash equivalents  | 180,191          | 51,620           |
| Cash and cash equivalents at beginning of year   | 254,444          | 202,824          |
| <b>Cash and cash equivalents at end of year</b>  | <b>\$434,635</b> | <b>\$254,444</b> |
| Supplemental disclosure of cash flow information:  |                  |                  |
| Equipment and space acquired through capital leases  | \$2,068          | \$1,992          |
| Cash paid during the year for interest   | \$81,646         | \$69,876         |

See accompanying notes to financial statements.

**The Trustees of Columbia University in the City of New York**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended June 30, 2012 and 2011**  
**(in thousands of dollars)**

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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 28,221 full-time and part-time students and employs approximately 14,506 full-time employees, including 5,459 full-time faculty members and research staff. Of these, 1,400 hold positions in the arts and sciences; 3,230 hold health science 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, College of Dental Medicine, and School of Nursing.

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 health sciences. Sponsored research, faculty patient care services, tuition, endowment income, patent royalties, and gifts provide the majority of CUMC’s revenues. Approximately 4,102 students are enrolled at CUMC, with a full-time faculty of 2,123, of whom approximately 317 are tenured. Additionally, CUMC’s staff includes 3,571 part-time faculty instructors, 1,152 full-time researcher staff members, 216 part-time researchers, 256 post doctoral research trainees and 1,055 post doctoral clinical trainees. Approximately 65 percent of the full-time faculty and 25 percent of the part-time faculty hold clinical appointments and have admitting privileges at New York-Presbyterian Hospital (“NYPH”).

Patient care activities include patient visits performed by Columbia full-time faculty through its medical faculty practice plan, as well as clinical, educational and administration services provided to hospitals and other health care institutions through contractual agreements for services.

CUMC maintains several clinical and education affiliation agreements with other organizations. The most significant affiliation agreements are with NYPH, St. Luke’s–Roosevelt Hospital Center, and Bassett Medical Center, and Harlem Hospital. Certain faculty physicians also provide patient care and supervision of residents at NYPH network hospitals and other affiliates. In addition, through interinstitutional “medical service agreements,” CUMC faculty provide patient care in specialty and subspecialty areas at hospitals in the tristate area and occasionally in other parts of the country and the world.

**The Trustees of Columbia University in the City of New York**  
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**For the Years Ended June 30, 2012 and 2011**  
**(in thousands of dollars)**

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In fiscal 2012, the clinical faculty handled approximately 1.8 million outpatient and emergency room visits and participated in instruction and supervision of 660 University medical students and 950 residents and fellows at NYPH. CUMC physicians generated 64,000 NYPH hospital admissions during the year.

Payments for patient-care services provided by the full-time faculty in both institutional and private office settings are derived mainly from third-party payers, including managed care companies (57 percent), Medicare (16 percent), Medicaid (11 percent), commercial insurance (5 percent), and other (1 percent). Direct patient payments comprise 10 percent of total payments.

### **3. Summary of Significant Accounting Policies**

The significant accounting policies of the University are as follows:

#### **Basis of Consolidation**

The accompanying consolidated financial statements of the University include the accounts of all academic and administrative departments of the University. Additionally, the consolidated 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 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, 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 a number of other New York limited liability companies, Delaware not-for-profit corporations, and international organizations, which are established to facilitate various program and research objectives.

The University provides investment custodial services and manages all of the assets of Columbia Presbyterian Medical Center Fund, Inc. ("CPMC Fund, Inc."), a not-for-profit corporation that was created to hold and receive gifts for the University and NYPH. The consolidated 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 practice entities, Columbia Ophthalmology Consultants, Inc., and Columbia University Healthcare, Inc., and a professional corporation, Columbia Doctors of New Jersey, and as such, consolidates these entities into the University's consolidated financial statements.

All significant intercompany accounts have been eliminated in consolidation.

**The Trustees of Columbia University in the City of New York**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended June 30, 2012 and 2011**  
**(in thousands of dollars)**

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**Accrual Basis**

The consolidated 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) that requires 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. Periodically, donor redesignations may result in reclassifications of net assets. 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, certain other balances with donor-imposed restrictions, amounts subject to time restrictions such as funds pledged for future payment, or amounts subject to legal restrictions, such as the portion of a donor-restricted permanent endowment fund that is not classified as permanently restricted net assets, as required by the New York Prudent Management of Institutional Funds Act (“NYPMIFA”), adopted on September 17, 2010. Once the time and purpose restriction are satisfied, or have been deemed to have been satisfied, those temporarily restricted net assets are released from restrictions.

*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 an endowment fund in perpetuity. The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) realized and unrealized gains and losses to the permanent endowment when stipulated by the donor gift instrument.

**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.



**The Trustees of Columbia University in the City of New York**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended June 30, 2012 and 2011**  
**(in thousands of dollars)**

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**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 is recognized as operating income in the period in which it is earned. Tuition and fee 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.

**Contributions**

Contributions for University operations and plant, including unconditional promises to give (“pledges”), are recognized as operating revenue in the period earned. Contributions to endowment are recognized as nonoperating revenue in the period earned. Pledges that are expected to be collected within one year are recorded net of an allowance for uncollectable pledges. 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 an interest rate for the year in which the promise was received and considers market and credit risk as applicable. 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.

**Patient Care Revenue and Expense**

Patient care activities relate to three distinct areas: medical faculty practice plans, affiliation agreements, and medical service agreements.

Patient Care expenses include direct expenses associated with providing patient care services, as well as administrative functions within the University’s faculty practice organization. Patient Care expense does not include rent or utilities in clinical space, as those costs are aggregated with all University space costs within “Operations and Maintenance of plant”.

The University provides medical care to patients via its faculty practice through 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. Included within the faculty practice revenues and expenses are financial arrangements associated with several physician professional corporations.

The University maintains several clinical and education affiliation agreements with other organizations. The University provides medical, professional, and supervisory staff as well as other technical assistance. Revenues and expenses from these agreements are accounted for in patient care categories of the operating activity in the Consolidated Statement of Activities.

**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, 2014.

**The Trustees of Columbia University in the City of New York**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended June 30, 2012 and 2011**  
**(in thousands of dollars)**

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**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, net of payments due to third parties, is recorded in "Revenue from other educational and research activities" in the Consolidated Statement of Activities. Costs incurred with developing and maintaining these patents are expensed as incurred.

**Institutional Support**

Institutional Support expense includes central administrative functions and expenses that support the management of the University. This category also includes any net operating surplus or deficit of the University's benefit pool, as recoveries from units across the University may be less than or greater than benefits paid in a given year.

**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 primarily of publicly traded fixed income and equity securities, alternative investments, and cash held for reinvestment, are stated at fair value as of June 30, 2012 and 2011. Alternative investments include investments in absolute return strategy funds, private equity funds, and real asset funds (collectively, the 'funds'). The management of the respective fund provides the fair value of the investment. The University reflects its share of the partnerships or corporations in the consolidated financial statements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The University believes that the net asset value of its alternative investments is a reasonable estimate of fair value as of June 30, 2012 and 2011. 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 consolidated financial statements based on the University's proportionate share in the net assets of these investments.

The University records both the assets and corresponding liabilities generated by securities lending transactions as "Collateral for securities loaned" and "Securities loan agreement payable". The loaned securities are returnable on demand and are collateralized by cash and cash equivalents.

The University's presentation in the Consolidated Statement of Cash Flows for limited liability partnerships, limited liability corporations, and other similarly structured investments is consistent with the accounting for equity method investments as it represents the underlying nature of these investments in which the University has a capital account.

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 Consolidated Statement of Activities. Dividend income is recorded on the ex-dividend date, and interest income is recorded on an accrual basis.

**The Trustees of Columbia University in the City of New York**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended June 30, 2012 and 2011**  
**(in thousands of dollars)**

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**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. In the case of irrevocable split-interest agreements whose assets are held in trusts not administered by the University (third-party charitable trusts), the University will recognize its beneficial interest when it is provided sufficient reliable information and documentation that establishes the trust's existence, assets and the University's remainder interest.

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. The discounts on those agreements are computed using an interest rate for the year in which the promise was received and considers market and credit risk as applicable. Assets related to these agreements are recorded in "Investments, at fair value," and the liability for 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 Consolidated Statement of Activities under "Present value adjustment to split-interest agreements."

**Institutional Real Estate**

Institutional real estate consists primarily 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 three 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, the University's investment in the Medical Center Insurance Company ("MCIC"), and insurance recovery receivable 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 Consolidated Balance Sheet. Costs associated with purchasing additions to and maintaining these collections are recorded as operating expenses in the period in which the items are acquired.

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**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 receipt of documentation evidencing that the trust has been established and a statement of its assets, and adjusted to fair value each year. The fair value of the interest in the perpetual trust is based on the University's share of the income generated by the trust, ascribed to the fair value of assets reported by the trust. Gains and losses resulting from the change in fair value of trust assets are reported as nonoperating activity in the Consolidated Statement of Activities.

**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 are recognized for remediation or disposal of asbestos, underground storage tanks, soil, 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.

**Other Long Term Liabilities**

Other long term liabilities are obligations that extend beyond one year, or operating cycle, whichever is longer. The obligations for the medical malpractice liabilities, self-insurance reserves, the fixed payor swap agreement and other commitments are categorized in other long term liabilities.

**Use of Estimates**

The preparation of consolidated 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 consolidated 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, estimated useful life of land, buildings and equipment, actuarially determined costs associated with split-interest agreements, pension, postemployment and postretirement benefits, contractual allowances for patient receivables, allowances for doubtful accounts, insurance obligations and conditional asset retirement obligations.

**2011 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 consolidated financial statements for 2011. 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 consolidated financial statements for the year ended June 30, 2011. In addition, certain amounts in the summarized consolidated financial statements for fiscal year 2011 have been reclassified to conform to the fiscal year 2012 presentation.

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**New Authoritative Pronouncements**

Effective for the fiscal year ended June 30, 2012, the University adopted additional disclosures related to the fair value measurements of investments as it relates to gross reporting of changes in Level 3 investments. This standard requires that the University present separately information about purchases, sales, issuances, and settlements on a gross basis rather than as a net number-effective in fiscal year 2012.

Effective for the fiscal year ended June 30, 2012, the University adopted new authoritative guidance requiring that anticipated insurance recoveries and estimated liabilities for medical malpractice claims be presented gross on the balance sheet. The University included such presentation on the consolidated balance sheet at June 2012, and June 2011 for comparability. At June 30, 2012 and 2011, the University recorded a receivable for anticipated insurance recoveries of \$110.4 million and \$96.7 million, respectively in Other assets and offsetting liabilities in Other long term liabilities of \$110.4 million \$96.7 million, respectively. The University's reinsurance receivables are due from fully funded captive companies and as such there is no provision for uncollectibility.

**4. Operating Measurement**

The University divides its Consolidated 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 and losses on investments, including realized gain distributions from fund 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, present value adjustments to split-interest agreements, changes in pension and postretirement obligations, other items and reclassifications.

**5. Patient Care Revenue**

The University's affiliation agreements with area hospitals generated \$250,382 and \$242,771 of revenue for the years ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, accounts receivable includes \$73,972 and \$76,087, respectively, relating to these agreements.

Medical faculty practice revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Medical faculty practice revenues are \$579,423 and \$531,623 for the years ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, patient accounts receivable amounts to \$71,770 and \$67,999, respectively, while medical service agreements generated \$22,855 and \$18,779 of revenue for the years ended June 30, 2012 and 2011, respectively.

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**6. Long-Term Investments and Fair Value**

The University values its investments in accordance with GAAP and consistent with the FASB official pronouncement on *Fair Value Measurements* for financial assets and liabilities. The pronouncement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value utilize relevant observable inputs and minimize the use of unobservable inputs.

The University follows a fair value hierarchy based on three levels of inputs, described below:

Fair value for Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or inputs other than quoted prices that are observable.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they are not actively traded.

Investments categorized as Level 2 and Level 3 include the University's ownership in funds that invest in alternative assets (i.e. absolute return strategy funds, private equity funds, and real asset funds) and funds that invest in equity and fixed income strategies. The value of the University's investments in these funds represents the University's ownership interest in the net asset value (NAV) of the respective fund. The University is permitted under GAAP to estimate the fair value of an investment at the measurement date using the NAV reported by the fund without further adjustment, provided the NAV has been calculated in accordance with or in a manner consistent with GAAP, and provided further that the University does not expect to sell the investment at a value other than NAV. The University performs due diligence procedures of its investments including an assessment of applicable accounting policies, a review of the valuation procedures employed, and consideration of redemption features and price transparency.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining the categorization of the University's investments within the fair value hierarchy, the University has considered market information, including observable net asset values, and the length of time until the investment will become redeemable. Investments which can be redeemed at NAV by the University up to 180 days beyond the measurement date are classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of that instrument and does not necessarily correspond to the University's perceived risk of that instrument.

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The following tables presents assets and liabilities measured at fair value at June 30, 2012 and at June 30, 2011.

| <b>Assets</b>                               | <b>2012</b>         |                     |                     | <b>Total</b>        |
|---|---------------------|---------------------|---------------------|---------------------|
|   | <b>Level 1</b>      | <b>Level 2</b>      | <b>Level 3</b>      |                     |
| Investments:                                |                     |                     |                     |                     |
| Cash and cash equivalents                   | \$ 120,176          | \$ 273,113          |                     | \$ 393,289          |
| Global equities                             | 939,014             | 182,026             | \$ 336,822          | 1,457,862           |
| Fixed income                                | 22,822              | 407,714             | 125                 | 430,661             |
| Absolute return strategies                  |                     | 1,175,930           | 1,077,306           | 2,253,236           |
| Private equity                              | 1,387               |                     | 1,766,982           | 1,768,369           |
| Real assets                                 | 10,854              |                     | 1,277,711           | 1,288,565           |
| Investments, at fair value                  | <u>1,094,253</u>    | <u>2,038,783</u>    | <u>4,458,946</u>    | <u>7,591,982</u>    |
| Interest in perpetual trusts held by others |                     |                     | 153,168             | 153,168             |
| Total assets at fair value                  | <u>\$ 1,094,253</u> | <u>\$ 2,038,783</u> | <u>\$ 4,612,114</u> | <u>\$ 7,745,150</u> |
| <b>Liabilities</b>                          |                     |                     |                     |                     |
| Swaps payable                               |                     | 86,337              |                     | 86,337              |
| Total liabilities at fair value             |                     | <u>\$ 86,337</u>    |                     | <u>\$ 86,337</u>    |

| <b>Assets</b>                               | <b>2011</b>         |                     |                     | <b>Total</b>        |
|---|---------------------|---------------------|---------------------|---------------------|
|   | <b>Level 1</b>      | <b>Level 2</b>      | <b>Level 3</b>      |                     |
| Investments:                                |                     |                     |                     |                     |
| Cash and cash equivalents                   | \$ 66,297           | \$ 280,157          |                     | \$ 346,454          |
| Global equities                             | 1,064,826           | 259,743             | \$ 233,854          | 1,558,423           |
| Fixed income                                | 25,075              | 541,120             | 435                 | 566,630             |
| Absolute return strategies                  |                     | 1,258,294           | 1,026,265           | 2,284,559           |
| Private equity                              | 43,746              |                     | 1,877,965           | 1,921,711           |
| Real assets                                 | 5,505               |                     | 1,217,912           | 1,223,417           |
| Investments, at fair value                  | <u>1,205,449</u>    | <u>2,339,314</u>    | <u>4,356,431</u>    | <u>7,901,194</u>    |
| Interest in perpetual trusts held by others |                     |                     | 161,256             | 161,256             |
| Total assets at fair value                  | <u>\$ 1,205,449</u> | <u>\$ 2,339,314</u> | <u>\$ 4,517,687</u> | <u>\$ 8,062,450</u> |
| <b>Liabilities</b>                          |                     |                     |                     |                     |
| Swaps payable                               |                     | 39,167              |                     | 39,167              |
| Total liabilities at fair value             |                     | <u>\$ 39,167</u>    |                     | <u>\$ 39,167</u>    |

**Cash and cash equivalents**

Cash and cash equivalents includes government securities and money market instruments and are valued at amortized cost which approximates fair value.

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**Global Equities and Fixed Income**

Global equities and fixed income consists of investments in publicly traded U.S. and foreign common and preferred equities, funds that invest in equity and fixed income based strategies, and cash held in separate accounts committed to these strategies. The fair value of these investments is 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). Fund investments in equity and fixed income based strategies are valued in accordance with valuations provided by the investment managers of the underlying funds. If the University has the ability to redeem from a fund up to 180 days beyond the measurement date at NAV, the investment is categorized as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

**Alternative Investments**

Alternative investments include interests in absolute return strategy funds, private equity funds, and real asset funds. These private equity funds include large market, leveraged buyout and venture capital based strategies. The University values these investments in accordance with valuations provided by the investment managers of the underlying funds. These funds may make investments in securities that are publicly traded, which are generally valued based on observable market prices, unless a restriction exists. In addition, interests in a private equity fund may be publicly traded and valued based on observable market prices. As a general rule, managers of funds invested in alternative investments value those investments based upon the best information available for a given circumstance and may incorporate assumptions that are the investment manager's best estimates after consideration of a variety of internal and external factors. If no public market exists for the investments, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the investment, prices of recent significant placements of similar investments of the same issuer, and subsequent developments concerning the companies to which the investments relate. The University's management may consider other factors in assessing the fair value of these investments. If the University has the ability to redeem from an absolute return strategy fund up to 180 days beyond the measurement date at NAV, the investment is categorized as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3. All private equity funds and real asset funds, with the exception of directly-held public securities, are categorized as Level 3 given that the University does not have discretion for timing of withdrawal.

The fair value of the alternative investment funds in the table above represents the amount the University would have expected to receive at June 30, 2012 and 2011, if it had liquidated its investments in the funds on these dates. The University has performed due diligence around these investments and believes that the NAV of its alternative investments is a reasonable estimate of fair value as of June 30, 2012 and 2011. Alternative investments may allocate a high percentage of their assets in specific sectors of the market in order to achieve a potentially greater investment return. As a result, the investments may be susceptible to economic, political, and regulatory developments in a particular sector of the market, positive or negative, and may experience increased volatility in net asset values.

Absolute return strategies also include separate accounts with direct investments in fixed income (which include mortgage back securities and convertible bonds) and cash committed to these strategies. The fair value of these investments is based on quoted market prices and is categorized as Level 2.



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**Perpetual Trusts**

The fair value of interest in perpetual trust held by third parties is based on the University's share of the income generated by the trust, ascribed to the fair value of the assets reported by the trust.

**Derivatives**

Investment fund managers may invest in derivatives, and the value of these positions is reflected in the NAV of the respective funds. Separately, the University employs derivatives primarily to hedge its risks and to rebalance its market exposures. Derivatives used may include futures, swaps, options, and forward contracts and are reflected at fair value following the definition of Level 1 and Level 2 assets as described above. The equity derivatives held directly by the University within the endowment portfolio had a fair value of \$2.4 million and \$1.6 million at June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, the notional amounts of long equity derivative contracts were \$430.0 million and \$583.9 million, respectively, and the notional amounts of short equity derivative contracts were \$112.6 million and \$434.5 million, respectively. The fair value of the equity swaps was \$1.5 million and \$1.0 million at June 30, 2012 and 2011, respectively. In addition, the University also held currency derivative contracts with an aggregate notional amount of \$161 million and a fair value of (\$1.0) million as of June 30, 2012. Outside of the endowment portfolio, the University entered into a fixed payor interest rate swap as described in Footnote 16. The estimated fair value of the agreement was (\$86.3) million and (\$39.2) million at June 30, 2012 and 2011, respectively, and is included in "Swaps payable" in the tables above. The derivatives are reflected as a receivable or payable, as appropriate, on the Consolidated Balance Sheet. Unrealized gain or loss from derivative investments is a component of the current year realized and unrealized capital gains (losses) in the Consolidated Statement of Activities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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The following table is a rollforward of the Consolidated Balance Sheet amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above at June 30, 2012 and 2011.

|                            | June 30,<br>2011 | Transfers<br>In/Out | Purchases  | Sales        | Realized<br>gain/loss | Unrealized<br>gain/loss | June 30,<br>2012 |
|----------------------------|------------------|---------------------|------------|--------------|-----------------------|-------------------------|------------------|
| Global equities            | \$ 233,853       |                     | \$ 104,151 | \$ (44,122)  | \$ (8,730)            | \$ 51,670               | \$ 336,822       |
| Fixed income               | 435              |                     |            | (311)        |                       | 1                       | 125              |
| Absolute return strategies | 1,026,265        | \$ 58,811           | 167,800    | (185,905)    | 57,432                | (47,097)                | 1,077,306        |
| Private equity             | 1,877,965        | (576)               | 237,909    | (342,747)    | 177,788               | (183,357)               | 1,766,982        |
| Real assets                | 1,217,912        |                     | 251,779    | (203,274)    | 49,913                | (38,619)                | 1,277,711        |
| Total level 3 investments  | \$ 4,356,431     | \$ 58,235           | \$ 761,639 | \$ (776,359) | \$ 276,403            | \$ (217,402)            | \$ 4,458,946     |

|   | June 30,<br>2011 | Disburse-<br>ments | Realized/<br>Unrealized<br>gain/loss, net | June 30,<br>2012 |
|---|------------------|--------------------|---|------------------|
| Interest in perpetual trusts held by others | \$ 161,256       | \$ (7,300)         | \$ (788)                                  | \$ 153,168       |

|                            | June 30,<br>2010 | Transfers<br>In/Out | Purchases &<br>Sales, net | Realized<br>gain/loss | Unrealized<br>gain/loss | June 30,<br>2011 |
|----------------------------|------------------|---------------------|---------------------------|-----------------------|-------------------------|------------------|
| Global equities            | \$ 207,310       | \$ 416              | \$ (1,795)                | \$ (3,365)            | \$ 31,287               | \$ 233,853       |
| Fixed income               | 523              |                     | (88)                      |                       | 1                       | 436              |
| Absolute return strategies | 978,375          | (57,599)            | (58,090)                  | 18,454                | 145,125                 | 1,026,265        |
| Private equity             | 1,555,071        |                     | (159,131)                 | 201,545               | 280,480                 | 1,877,965        |
| Real assets                | 1,057,797        |                     | (15,413)                  | 93,371                | 82,157                  | 1,217,912        |
| Total level 3 investments  | \$ 3,799,076     | \$ (57,183)         | \$ (234,517)              | \$ 310,005            | \$ 539,050              | \$ 4,356,431     |

|   | June 30,<br>2010 | Disburse-<br>ments | Realized/<br>Unrealized<br>gain/loss, net | June 30,<br>2011 |
|---|------------------|--------------------|---|------------------|
| Interest in perpetual trusts held by others | \$ 136,045       | \$ (5,137)         | \$ 30,348                                 | \$ 161,256       |

All net realized and unrealized gains/(losses) in the tables above are reflected in the Consolidated Statement of Activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30, 2012 and 2011. The University's policy is to recognize transfers in and transfers out as of the end of the period. The transfer from Level 3 to Level 2 are reported at gross, due to the criteria described above. During the year ended June 30, 2012, there were no significant transfers between Level 1 and Level 2.

Certain investments in global equities and alternative investments may be subject to restrictions that i) limit the University's ability to withdraw capital after such investment and ii) limit the amount that may be withdrawn as of a given redemption date. The redemption terms of the University's investments in absolute return strategy funds vary from daily to triennial, with a portion of these investments designated as "illiquid" in "sidepockets" and that portion may not be available for

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withdrawal until liquidated by the investing fund and redemption notice periods range from 0 days to 180 days. Generally, as noted above, the University has no discretion as to withdrawal with respect to its investment in private equity and real asset funds; distributions are made when sales of assets are made with the funds. The remaining life of these private equity and real asset funds is up to 12 years.

The University is obligated under certain investment fund agreements to advance additional funding up to specified levels over a period several years. These commitments have fixed expiration dates and other termination clauses. At June 30, 2012, the University had unfunded commitments of approximately \$1.2 billion as displayed in the table below.

| <b>Asset class<br/>(\$ in millions)</b> | <b>Remaining life</b> | <b>Unfunded<br/>commitments</b> | <b>Timing to draw<br/>commitments</b> |
|---|-----------------------|---------------------------------|---------------------------------------|
| Global equities                         | N/A                   | \$ 14                           | 1 to 8 years                          |
| Absolute return strategies              | N/A                   | 124                             | 1 to 5 years                          |
| Private equity                          | 1 to 12 years         | 549                             | 1 to 12 years                         |
| Real assets                             | 1 to 12 years         | 498                             | 1 to 12 years                         |
| Total                                   |                       | <u>\$ 1,185</u>                 |                                       |

Management's estimate of the lives of the funds could vary significantly depending on the investment decisions of the external fund managers, changes in the University's portfolio, and other circumstances. Furthermore, the University's obligation to fund the commitments noted above may be waived by the fund manager for a variety of reasons including market conditions and/or changes in investment strategy.

The University does have various sources of internal liquidity at its disposal, including cash, cash equivalents, marketable debt and equity securities and lines of credit.

**Securities Lending**

At June 30, 2012 and 2011, investment securities having a fair value of \$29.5 million and \$9.4 million, respectively, were loaned to various brokerage firms through a securities lending agent. The loaned securities are returnable on demand and are collateralized by cash and cash equivalents. The University recorded the value of the collateral received of \$30.5 million and \$9.7 million and an offsetting liability for the return of the collateral on the Consolidated Balance Sheet at June 30, 2012 and 2011, respectively.

**Investment Return**

Investment income and gains utilized on the Consolidated Statement of Activities contains interest and dividend income net of fees, 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 \$302.5 million and \$288.4 million during 2012 and 2011, respectively. The nonoperating section of the Consolidated Statement of Activities contains realized and unrealized gains reduced by endowment appreciation utilized to fund the spending rule.

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**7. Endowment Funds**

The University's endowment consists of approximately almost 4,600 separate funds established over many years for a wide variety of purposes. The endowment includes permanent endowments, term endowments, and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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.

**Relevant Law**

Under NYPMIFA, the University may appropriate so much of an endowment fund as it deems prudent, considering the specific factors set forth in NYPMIFA and subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the earnings in an endowment fund are donor-restricted assets until appropriated.

The University continues to classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) realized and unrealized gains and losses to the permanent endowment when stipulated by the donor gift instrument. In accordance with NYPMIFA and authoritative guidance, effective June 30, 2011 the remaining portion of the donor-restricted endowment funds not classified in permanently restricted net assets which had previously been classified as unrestricted net assets is now classified as temporarily restricted net assets. As a result, in fiscal year 2011, the University reclassified \$1.7 billion of unrestricted net assets to temporarily restricted net assets. Such amounts relate to accumulated earnings on endowment funds and other funds, including distributions from the endowment unspent due to timing.

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The composition and changes in the University's endowment net assets as of June 30, 2012 and 2011, are as follows:

|  | 2012                       |   |   | Total               |
|--|----------------------------|---|---|---------------------|
|  | Unrestricted<br>Net Assets | Temporarily<br>Restricted<br>Net Assets | Permanently<br>Restricted<br>Net Assets |                     |
| <b>Changes in University endowment net assets</b>  |                            |   |   |                     |
| Opening balance - June 30, 2011  | \$ 2,906,157               | \$ 2,869,739                            | \$ 2,013,683                            | \$ 7,789,579        |
| Investment return:   |                            |   |   |                     |
| Investment income  | 71,441                     | 242                                     | 7,127                                   | 78,810              |
| Net appreciation   | 30,697                     | 29,317                                  | (9,536)                                 | 50,478              |
| Total investment return  | 102,138                    | 29,559                                  | (2,409)                                 | 129,288             |
| New gifts  | 6,332                      | 4,907                                   | 140,810                                 | 152,049             |
| Appropriation for expenditure  | (209,411)                  | (231,596)                               | (7,127)                                 | (448,134)           |
| Other Changes:   |                            |   |   |                     |
| Transfers to create endowments   | 5,572                      | 25,654                                  |   | 31,226              |
| Other / Reclassifications  | (10,365)                   | 4,712                                   | 5,797                                   | 144                 |
|  | (4,793)                    | 30,366                                  | 5,797                                   | 31,370              |
| Closing balance - June 30, 2012  | <u>\$ 2,800,423</u>        | <u>\$ 2,702,975</u>                     | <u>\$ 2,150,754</u>                     | <u>\$ 7,654,152</u> |
| <b>University endowment composition</b>  |                            |   |   |                     |
| Endowment funds  |                            | \$ 2,454,784                            | \$ 1,974,578                            | \$ 4,429,362        |
| Funds functioning as endowment:  |                            |   |   |                     |
| Departmental funds   | \$ 1,180,529               | 204,487                                 |   | 1,385,016           |
| University funds   | 1,239,872                  |   |   | 1,239,872           |
| Institutional real estate, net   | 367,820                    |   |   | 367,820             |
| CPMC Fund, Inc.  | 12,202                     | 43,704                                  | 23,008                                  | 78,914              |
| Interests in perpetual trusts held by others   |                            |   | 153,168                                 | 153,168             |
| University's endowment value   | <u>\$ 2,800,423</u>        | <u>\$ 2,702,975</u>                     | <u>\$ 2,150,754</u>                     | <u>\$ 7,654,152</u> |
| Note: The tables above do not include split-interest agreements, net of \$98,588 and pledges receivable, net of \$131,994. |                            |   |   |                     |
| <b>Reconciliation to Investments, at fair value</b>  |                            |   |   |                     |
| Investments, at fair value   |                            |   |   | \$ 7,591,982        |
| Add:   |                            |   |   |                     |
| Interests in perpetual trusts held by others   |                            |   | 153,168                                 |                     |
| CPMC Fund, Inc.  |                            |   | 78,914                                  |                     |
| Institutional real estate, net   |                            |   | 367,820                                 |                     |
| Investment receivables and payables  |                            |   | 53,315                                  | 653,217             |
| Subtract:  |                            |   |   |                     |
| Other long-term investments  |                            |   | (399,404)                               |                     |
| Split-interest agreements, net   |                            |   | (149,641)                               |                     |
| Funds held on behalf of others   |                            |   | (42,002)                                | (591,047)           |
| University's endowment value   |                            |   |   | <u>\$ 7,654,152</u> |

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|  | 2011                       |   |   | Total               |
|--|----------------------------|---|---|---------------------|
|  | Unrestricted<br>Net Assets | Temporarily<br>Restricted<br>Net Assets | Permanently<br>Restricted<br>Net Assets |                     |
| <b>Changes in University endowment net assets</b>  |                            |   |   |                     |
| Opening balance - June 30, 2010  | \$ 4,124,063               | \$ 543,658                              | \$ 1,848,791                            | \$ 6,516,512        |
| Cumulative Balance Reclass   | (1,651,515)                | 1,651,515                               |   |                     |
| Investment return:   |                            |   |   |                     |
| Investment income  | 57,560                     | 363                                     | 5,137                                   | 63,060              |
| Net appreciation   | 503,479                    | 879,533                                 | 26,188                                  | 1,409,200           |
| Total investment return  | 561,039                    | 879,896                                 | 31,325                                  | 1,472,260           |
| New gifts  | 27,108                     | 210                                     | 124,177                                 | 151,495             |
| Appropriation for expenditure  | (195,309)                  | (200,922)                               | (5,137)                                 | (401,368)           |
| Other Changes:   |                            |   |   |                     |
| Transfers to create endowments   | 22,888                     | 12,602                                  | 17,109                                  | 52,599              |
| Other / Reclassifications  | 17,883                     | (17,220)                                | (2,582)                                 | (1,919)             |
|  | 40,771                     | (4,618)                                 | 14,527                                  | 50,680              |
| Closing balance - June 30, 2011  | <u>\$ 2,906,157</u>        | <u>\$ 2,869,739</u>                     | <u>\$ 2,013,683</u>                     | <u>\$ 7,789,579</u> |
| <b>University endowment composition</b>  |                            |   |   |                     |
| Endowment funds  |                            | \$ 2,611,498                            | \$ 1,823,093                            | \$ 4,434,591        |
| Funds functioning as endowment:  |                            |   |   |                     |
| Departmental funds   | \$ 1,243,608               | 212,838                                 |   | 1,456,446           |
| University funds   | 1,288,264                  |   |   | 1,288,264           |
| Institutional real estate, net   | 359,162                    |   |   | 359,162             |
| CPMC Fund, Inc.  | 15,123                     | 45,403                                  | 29,334                                  | 89,860              |
| Interests in perpetual trusts held by others   |                            |   | 161,256                                 | 161,256             |
| University's endowment value   | <u>\$ 2,906,157</u>        | <u>\$ 2,869,739</u>                     | <u>\$ 2,013,683</u>                     | <u>\$ 7,789,579</u> |
| Note: The tables above do not include split-interest agreements, net of \$53,304 and pledges receivable, net of \$132,751. |                            |   |   |                     |
| <b>Reconciliation to Investments, at fair value</b>  |                            |   |   |                     |
| Investments, at fair value   |                            |   |   | \$ 7,901,194        |
| Add:   |                            |   |   |                     |
| Interests in perpetual trusts held by others   |                            |   | 161,256                                 |                     |
| CPMC Fund, Inc.  |                            |   | 89,860                                  |                     |
| Institutional real estate, net   |                            |   | 359,162                                 |                     |
| Investment receivables and payables  |                            |   | 61,182                                  | 671,460             |
| Subtract:  |                            |   |   |                     |
| Other long-term investments  |                            |   | (626,725)                               |                     |
| Split-interest agreements, net   |                            |   | (107,636)                               |                     |
| Funds held on behalf of others   |                            |   | (48,714)                                | (783,075)           |
| University's endowment value   |                            |   |   | <u>\$ 7,789,579</u> |

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**Return Objectives and Risk Parameters**

Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under the University's investment policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce performance which exceeds that of relevant indices for each asset class while assuming a moderate level of investment risk.

**Strategies Employed for Achieving Objectives**

The University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

**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 multiyear 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. This allows the University to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

As a general policy, 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 the given fiscal year, 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 conduct a special review in any year in which either projected endowment distributions are 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.

The Trustees approved a decision to temporarily override the spending rule formula described above in fiscal 2010 and 2011 in order to begin to absorb the endowment losses experienced in fiscal 2009 earlier than the spending rule formula would allow, given the market lag effect inherent

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in the formula. The approved plan prescribed an 8 percent decrease of the per share spending rate in fiscal 2010, and a subsequent 5 percent decrease in fiscal 2011.

In addition to the base spending rate described above, two additional payout components were approved as temporary measures by the Trustees in 2008. The first is an increase in annual spending of up to 1.75 percent of the prior year beginning market value of endowments that are designated for undergraduate financial aid support. This increase began in fiscal 2009 and will be phased out as new endowments substitute for this funding source. The amount of the incremental payout for the coming year is approved annually by the Trustees' Committee on Finance as part of the budget process. The second component is 0.70 percent of the prior year beginning market value for certain endowments in categories key to the University's current development efforts, primarily unrestricted endowment and endowments for financial aid and faculty support.

The appropriation process for fiscal year 2011 occurred prior to the enactment of NYPMIFA on September 17, 2010. Beginning in fiscal year 2012, appropriations under the spending rule were governed by NYPMIFA, which permits the University to appropriate so much of an endowment fund as it deems prudent following consideration of certain specific factors set forth in NYPMIFA.

**8. Accounts Receivable**

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

|  | <b>2012</b>       | <b>2011</b>       |
|--|-------------------|-------------------|
| Patient receivables, net of contractual allowances | \$ 119,725        | \$ 106,413        |
| Government agencies                                | 123,867           | 121,590           |
| NewYork-Presbyterian Hospital                      | 72,664            | 67,530            |
| Patent and licensing                               | 22,354            | 24,799            |
| Student receivables                                | 25,986            | 15,603            |
| Other receivables, gross                           | 82,990            | 84,976            |
|  | <u>447,586</u>    | <u>420,911</u>    |
| Less: Allowance for doubtful accounts              | (62,758)          | (53,504)          |
| Accounts receivable, net                           | <u>\$ 384,828</u> | <u>\$ 367,407</u> |

Patient receivables for medical services are net of an allowance for contractual reserves in the amount of \$103.9 million and \$92.2 million at June 30, 2012 and 2011, respectively.

**9. 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:

|  | <b>2012</b>      | <b>2011</b>      |
|--|------------------|------------------|
| Government revolving loans               | \$ 71,546        | \$ 67,720        |
| Institutional loans                      | 23,087           | 23,911           |
| Gross student loans                      | 94,633           | 91,631           |
| Less: Allowance for doubtful collections | (1,320)          | (3,672)          |
| Student loans receivable, net            | <u>\$ 93,313</u> | <u>\$ 87,959</u> |



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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 consolidated 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 \$298.6 million and \$303.5 million for the years ended June 30, 2012 and 2011, 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 \$66.0 million and \$65.5 million and advances under the other federally sponsored loan programs are \$13.7 million and \$13.4 million as of June 30, 2012 and 2011, 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.

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluation of the student loan and student accounts receivable portfolios.

Loans receivable under federally guaranteed student loan programs are subject to significant restrictions.

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. Funding from external sources is obtained through government and private grants and contracts as well as private gifts and payout from certain endowment funds.

|                            | 2012               |                  |                     | 2011               |                  |                     |
|----------------------------|--------------------|------------------|---------------------|--------------------|------------------|---------------------|
|                            | University Sources | External Sources | Total Financial Aid | University Sources | External Sources | Total Financial Aid |
| Undergraduate              | \$ 88,533          | \$ 40,320        | \$ 128,853          | \$ 78,911          | \$ 42,606        | \$ 121,517          |
| Graduate                   | 108,682            | 61,414           | 170,096             | 104,773            | 55,812           | 160,585             |
| Total financial aid grants | \$ 197,215         | \$ 101,734       | \$ 298,949          | \$ 183,684         | \$ 98,418        | \$ 282,102          |

Agency activities such as tuition aid grants, federal supplemental educational opportunity grants, federal Pell, SMART, and ACG grant program are not included in the University's consolidated financial statements. Receipts from agency transactions were \$8.1 million and \$13.9 million, and disbursements were \$8.1 million and \$13.9 million in fiscal year 2012 and 2011, respectively.

**10. 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:

|  | 2012              | 2011              |
|--|-------------------|-------------------|
| Less than one year                         | \$ 420,449        | \$ 415,825        |
| One to five years                          | 540,425           | 386,175           |
| More than five years                       | 44,960            | 176,551           |
| Total unconditional promises               | <u>1,005,834</u>  | <u>978,551</u>    |
| Less: Allowance for doubtful contributions | (30,397)          | (30,156)          |
| Less: Net present-value discount           | (55,242)          | (65,691)          |
| Net pledges receivable                     | <u>\$ 920,195</u> | <u>\$ 882,704</u> |

New pledges recorded in 2012 and 2011 were discounted at an average annual rate of 1.5 percent and 2.7 percent, respectively, using a rate that considers market and credit risk. Credit risk is also considered in the allowance for doubtful contributions.

Pledges receivable are intended for the following purposes:

|  | 2012              | 2011              |
|--|-------------------|-------------------|
| Endowment for educational and general purposes | \$ 131,994        | \$ 132,751        |
| New construction and modernization of plant    | 349,577           | 339,448           |
| Support of University operations               | 438,624           | 410,505           |
| Net pledges receivable                         | <u>\$ 920,195</u> | <u>\$ 882,704</u> |

The University also has other outstanding pledges of \$167.4 million as of June 30, 2012. These pledges represent either conditional gifts for which the probability of meeting the conditions is uncertain, verbal pledges, or other pledges that have not met the requirements for recognition.

## 11. Land, Buildings, and Equipment

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

|                                       | 2012                |                             |                     | 2011                |                             |                     |
|---------------------------------------|---------------------|-----------------------------|---------------------|---------------------|-----------------------------|---------------------|
|                                       | Total<br>Assets     | Accumulated<br>Depreciation | Net<br>Assets       | Total<br>Assets     | Accumulated<br>Depreciation | Net<br>Assets       |
| Land                                  | \$ 442,353          |                             | \$ 442,353          | \$ 373,791          |                             | \$ 373,791          |
| Building and building<br>improvements | 4,072,941           | \$ 1,786,345                | 2,286,596           | 3,816,927           | \$ 1,631,119                | 2,185,808           |
| Equipment                             | 368,661             | 191,199                     | 177,462             | 326,298             | 175,679                     | 150,619             |
|                                       | <u>\$ 4,883,955</u> | <u>\$ 1,977,544</u>         | <u>\$ 2,906,411</u> | <u>\$ 4,517,016</u> | <u>\$ 1,806,798</u>         | <u>\$ 2,710,218</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, capitalized space leases, and construction in progress. Capital space leases at June 30, 2012 and 2011, were \$88.7 million and \$91.3 million, respectively.

**12. Accrued Employee Benefit Liabilities**

Accrued employee benefit liabilities arise from employment at the University. These include liabilities for pension, postretirement benefits, postemployment 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 2012 and 2011, the University recognized actuarially computed liabilities of \$30.7 million and \$29.0 million, respectively.

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

**Pension Plan Benefits**

The University has five non-contributory pension plans (the "pension plans") for supporting staff employees. Four of the pension plans are subject to collective bargaining agreements. The fifth pension plan covers former employees of the Arden Conference Center, which closed in 2005. Three of the plans include defined benefits plans for past service, and in the case of two plans, defined benefit for future service. Two of the pension plans provide defined benefits for service prior to 1976 (January 1, in one case, and prior to July 1, 1976, in the other). For these two pension plans, future benefits are provided by defined contribution plans. Charges to expenditures for the defined contribution segments of the plans amounted to \$5.4 million and \$5.5 million for the years ended June 30, 2012 and 2011, respectively.

In addition, the University provides retirement benefits for full-time faculty, officers, and certain other employees under a separate defined contribution plan (the "officer plan"). Charges to expenditures for the officer plan amounted to \$91.8 million and \$90.1 million for the years ended June 30, 2012 and 2011, 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 employees who are eligible render service.

**Obligations and Funded Status**

The University adopted authoritative guidance, which requires the recognition on the Balance Sheet of the difference between benefit obligations and any plan assets of the University's defined benefit and other postretirement benefit plans. In addition, the authoritative guidance requires unamortized amounts (e.g., net actuarial gains or losses and prior service cost or credits) to be recognized as changes to unrestricted net assets and that those amounts be adjusted as they are subsequently recognized as components of net periodic pension cost.

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Amounts recognized in unrestricted net assets are as follows:

|                         | Pension Plan Benefits |                  | Other Postretirement Benefits |                  |
|-------------------------|-----------------------|------------------|-------------------------------|------------------|
|                         | 2012                  | 2011             | 2012                          | 2011             |
| Net actuarial loss      | \$ 60,998             | \$ 38,083        | \$ 100,859                    | \$ 78,091        |
| Prior service cost      | 763                   | 856              | (37,195)                      | (48,020)         |
| Total amount recognized | <u>\$ 61,761</u>      | <u>\$ 38,939</u> | <u>\$ 63,664</u>              | <u>\$ 30,071</u> |

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

|   | Pension Plan Benefits |                    | Other Postretirement Benefits |                    |
|---|-----------------------|--------------------|-------------------------------|--------------------|
|   | 2012                  | 2011               | 2012                          | 2011               |
| <b>Change in benefit obligation:</b>    |                       |                    |                               |                    |
| Benefit obligation, beginning of year   | \$ 117,602            | \$ 115,968         | \$ 172,454                    | \$ 202,146         |
| Service cost                            | 3,796                 | 3,718              | 5,825                         | 7,004              |
| Interest cost                           | 6,726                 | 6,330              | 9,426                         | 10,239             |
| Plan participants' contributions        |                       |                    | 4,183                         | 4,054              |
| Actuarial (gain) loss                   | 28,637                | (3,027)            | 22,916                        | (16,030)           |
| Plan amendments                         |                       |                    |                               | (23,149)           |
| Assumption Changes                      | 1,020                 | (119)              |                               |                    |
| Net disbursements and transfers         | (5,048)               | (5,268)            | (11,928)                      | (11,810)           |
| Benefit obligation, end of year         | <u>\$ 152,733</u>     | <u>\$ 117,602</u>  | <u>\$ 202,876</u>             | <u>\$ 172,454</u>  |
| <b>Change in plan assets:</b>           |                       |                    |                               |                    |
| Fair value of assets, beginning of year | \$ 90,823             | \$ 77,000          | \$ 121,908                    | \$ 92,963          |
| Actual return on plan assets            | 10,908                | 10,605             | 4,893                         | 21,982             |
| Employer contributions                  | 13,389                | 8,237              | 11,195                        | 15,096             |
| Plan participants' contributions        |                       |                    | 4,183                         | 4,054              |
| Net disbursements and transfers         | (5,303)               | (5,019)            | (12,887)                      | (12,187)           |
| Fair value of assets, end of year       | <u>\$ 109,817</u>     | <u>\$ 90,823</u>   | <u>\$ 129,292</u>             | <u>\$ 121,908</u>  |
| Net amount recognized                   | <u>\$ (42,916)</u>    | <u>\$ (26,779)</u> | <u>\$ (73,584)</u>            | <u>\$ (50,546)</u> |

| Weighted-average assumptions used to determine end of year benefit obligation | 2012           | 2011          |
|---|----------------|---------------|
| Discounted rate   | 3.45% to 4.35% | 4.75% to 5.7% |
| Rate of compensation increase   | 2.7% to 3.25%  | 1.9% to 4.25% |

The accumulated benefit obligations for the pension plans at June 30, 2012 and 2011 were \$122.7 and \$93.5 million, respectively.

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At the end of 2012 and 2011, the projected benefit obligation exceeded the pension plan assets for three of the five plans. The projected benefit obligation for the pension plans with a benefit obligation in excess of plan assets were as follows:

| <b>End of year</b>           | <b>2012</b> | <b>2011</b> |
|------------------------------|-------------|-------------|
| Projected benefit obligation | \$ 140,006  | \$ 105,338  |
| Fair value of plan assets    | 95,882      | 77,293      |

The accumulated postretirement benefit obligation for the other postretirement benefit plan and the fair value of plan assets with an accumulated postretirement benefit obligation in excess of plan assets were as follows:

| <b>End of year</b>                            | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| Accumulated postretirement benefit obligation | \$ 202,876  | \$ 172,545  |
| Fair value of plan assets                     | 129,292     | 121,908     |

A 7.5 percent annual rate of increase in the per capita cost of covered health care benefits for the other postretirement benefit plan was assumed for 2013. The rate was assumed to decrease gradually to 5 percent for 2017 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<br/>increase</b> | <b>1-%-point<br/>decrease</b> |
|---|-------------------------------|-------------------------------|
| Effect on accumulated postretirement benefit obligation | \$ 28,493                     | \$ (22,793)                   |

The asset allocation for the two defined benefit plans for both past and future service at June 30, 2012 and 2011, and the target allocation for 2013, by asset category, follows:

| <b>Asset category</b>              | <b>Target<br/>allocation<br/>2013</b> | <b>Percentage of plan<br/>assets at year's end</b> |             |
|------------------------------------|---------------------------------------|--|-------------|
|                                    |                                       | <b>2012</b>  | <b>2011</b> |
| U.S. large cap equity              | 20%                                   | 23%  | 22%         |
| International equities             | 15%                                   | 14%  | 15%         |
| High yield fixed income securities | 15%                                   | 16%  | 15%         |
| U.S. core fixed income             | 50%                                   | 47%  | 48%         |
|                                    | <u>100%</u>                           | <u>100%</u>  | <u>100%</u> |

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The asset allocation for the two defined benefit plans for prior service only at June 30, 2012 and 2011, and the target allocation for 2013, by asset category, follows:

| Asset category                     | Target allocation | Percentage of plan assets at year's end |             |
|------------------------------------|-------------------|---|-------------|
|                                    | 2013              | 2012                                    | 2011        |
| U.S. large cap equity              | 10%               | 9%                                      | 10%         |
| International equities             | 5%                | 4%                                      | 5%          |
| High yield fixed income securities | 5%                | 5%                                      | 5%          |
| U.S. core fixed income             | 80%               | 82%                                     | 80%         |
|                                    | <u>100%</u>       | <u>100%</u>                             | <u>100%</u> |

The retirement plan for the employees of Arden Conference Center was invested in equity securities, including mutual funds, 25 percent, and debt securities, 75 percent.

The following presents investments of the pension plans as of June 30, 2012. The Plans' investments in common collective trusts and mutual funds are included as Level 2 because fair value is based on quoted prices for similar instruments or other observable inputs. Level 3 assets represent fixed income related investment contracts with a major life insurance company.

|                                   | Level 1 | Level 2    | Level 3  | Total      |
|-----------------------------------|---------|------------|----------|------------|
| Common collective trust funds     |         |            |          |            |
| Global equity                     | \$ -    | \$ 36,445  |          | \$ 36,445  |
| Fixed income                      |         | 70,482     |          | 70,482     |
| Mutual funds                      |         | 713        |          | 713        |
| Fixed income investment contracts |         |            | \$ 2,177 | 2,177      |
| Investments, at fair value        | \$ -    | \$ 107,640 | \$ 2,177 | \$ 109,817 |

The following table is a roll forward of the amounts for investments classified within Level 3 as described above.

|                           | June 30, 2011 | Purchases (Gross) | Sales (Gross) | Investment gain/(loss) | June 30, 2012 |
|---------------------------|---------------|-------------------|---------------|------------------------|---------------|
| Investment contracts      | \$ 2,088      | \$ 142            | \$ (154)      | \$ 101                 | \$ 2,177      |
| Total level 3 investments | \$ 2,088      | \$ 142            | \$ (154)      | \$ 101                 | \$ 2,177      |

The following presents investments of the pension plans as of June 30, 2011.

|                                   | Level 1 | Level 2   | Level 3  | Total     |
|-----------------------------------|---------|-----------|----------|-----------|
| Common collective trust funds     |         |           |          |           |
| Global equity                     | \$ -    | \$ 29,547 |          | \$ 29,547 |
| Fixed income                      |         | 58,454    |          | 58,454    |
| Mutual funds                      |         | 734       |          | 734       |
| Fixed income investment contracts |         |           | \$ 2,088 | 2,088     |
| Investments, at fair value        | \$ -    | \$ 88,735 | \$ 2,088 | \$ 90,823 |

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The following table is a roll forward of the amounts for investments classified within Level 3 as described above.

|                           | June 30,<br>2010 | Purchases &<br>Sales, Net | Investment<br>gain/(loss) | June 30,<br>2011 |
|---------------------------|------------------|---------------------------|---------------------------|------------------|
| Investment contracts      | \$ 1,962         | \$ -                      | \$ 126                    | \$ 2,088         |
| Total level 3 investments | <u>\$ 1,962</u>  | <u>\$ -</u>               | <u>\$ 126</u>             | <u>\$ 2,088</u>  |

The asset allocation for the other postretirement benefit plan at June 30, 2012 and 2011, and the target allocation for 2013, by asset category, follows:

| Asset category        | Target<br>allocation | Percentage of plan<br>assets at year's end |             |
|-----------------------|----------------------|--|-------------|
|                       | 2013                 | 2012                                       | 2011        |
| U.S. large cap equity | 60%                  | 59%  | 59%         |
| International equity  | 15%                  | 16%  | 16%         |
| U.S. fixed income     | 25%                  | 25%  | 25%         |
|                       | <u>100%</u>          | <u>100%</u>                                | <u>100%</u> |

The following presents investments of the other postretirement benefit plan as of June 30, 2012. The Plans' investments in common collective trusts are included as Level 2 because the fair value is based on quoted prices for similar instruments or other observable inputs.

|                               | Level 1     | Level 2           | Level 3     | Total             |
|-------------------------------|-------------|-------------------|-------------|-------------------|
| Common collective trust funds |             |                   |             |                   |
| Global Equity                 | \$ -        | \$ 97,593         | \$ -        | \$ 97,593         |
| Fixed Income                  |             | 31,699            |             | 31,699            |
| Investments, at fair value    | <u>\$ -</u> | <u>\$ 129,292</u> | <u>\$ -</u> | <u>\$ 129,292</u> |

The following presents investments of the other postretirement benefit plan as of June 30, 2011.

|                               | Level 1     | Level 2           | Level 3     | Total             |
|-------------------------------|-------------|-------------------|-------------|-------------------|
| Common collective trust funds |             |                   |             |                   |
| Global Equity                 | \$ -        | \$ 91,966         | \$ -        | \$ 91,966         |
| Fixed Income                  |             | 29,942            |             | 29,942            |
| Investments, at fair value    | <u>\$ -</u> | <u>\$ 121,908</u> | <u>\$ -</u> | <u>\$ 121,908</u> |

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**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 |                    |
|--|-----------------------|-------------------|-------------------------------|--------------------|
|  | 2012                  | 2011              | 2012                          | 2011               |
| <b>Components of net periodic benefit cost</b>   |                       |                   |                               |                    |
| Service cost   | \$ 3,796              | \$ 3,718          | \$ 5,825                      | \$ 7,004           |
| Interest cost on projected benefit obligation  | 6,726                 | 6,330             | 9,426                         | 10,239             |
| Expected return on assets  | (6,060)               | (5,514)           | (9,203)                       | (7,177)            |
| Amortization of prior service cost   | 93                    | 93                | (10,825)                      | (6,577)            |
| Amortization of unrecognized net losses  | 2,148                 | 2,234             | 5,132                         | 7,706              |
| Net periodic benefit cost  | <u>6,703</u>          | <u>6,861</u>      | <u>355</u>                    | <u>11,195</u>      |
| <b>Other changes in plan assets and benefit obligations recognized in the Consolidated Statement of Activities</b> |                       |                   |                               |                    |
| Current year actuarial (gain)/loss   | 25,063                | (8,485)           | 27,900                        | (31,509)           |
| Amortization of actuarial gain/(loss)  | (2,148)               | (2,234)           | (5,132)                       | (7,706)            |
| Current year prior service (credit)/cost   |                       |                   |                               | (23,149)           |
| Amortization of prior service credit/(cost)  | (93)                  | (93)              | 10,825                        | 6,577              |
| Total recognized in nonoperating   | <u>22,822</u>         | <u>(10,812)</u>   | <u>33,593</u>                 | <u>(55,787)</u>    |
| Total recognized in net periodic benefit cost and nonoperating   | <u>\$ 29,525</u>      | <u>\$ (3,951)</u> | <u>\$ 33,948</u>              | <u>\$ (44,592)</u> |

Amounts in net unrestricted assets expected to be recognized in net periodic pension cost in fiscal 2013 are as follows:

|                             | Pension Plan Benefits | Other Postretirement Benefits |
|-----------------------------|-----------------------|-------------------------------|
| Actuarial (gain)/loss       | \$ 4,274              | \$ 7,514                      |
| Prior service (credit)/cost | 93                    | (10,824)                      |
|                             | <u>\$ 4,367</u>       | <u>\$ (3,310)</u>             |

|   | 2012           | 2011          |
|---|----------------|---------------|
| <b>Weighted-average assumptions used to determine net periodic pension cost</b> |                |               |
| Discount rate   | 3.45% to 4.35% | 4.6% to 5.5%  |
| Expected return on plan assets  | 5% to 6.5%     | 5% to 6.5%    |
| Rate of compensation increase   | 2.70% to 3.25% | 1.9% to 4.25% |

To arrive at assumptions for expected long term rates of return on asset in the pension plan and the postretirement benefit plan, the University considered historical returns and future expectations for returns in each asset class in the asset allocation for the previously described pension and postretirement benefit portfolios.



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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:

|   | % -point<br>increase | % -point<br>decrease |
|---|----------------------|----------------------|
| Effect on total service and interest cost | \$ 2,536             | \$ (1,983)           |

**Expected Cash Flows**

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

|                                   | Pension Benefits | Other Postretirement<br>Pension Benefits |
|-----------------------------------|------------------|--|
| <b>University contributions:</b>  |                  |  |
| <b>2013 (expected)</b>            | \$ 7,254         | \$ 4,209                                 |
| <b>Expected benefit payments:</b> |                  |  |
| 2013                              | 5,566            | 9,278                                    |
| 2014                              | 5,821            | 9,546                                    |
| 2015                              | 6,086            | 9,759                                    |
| 2016                              | 6,355            | 9,826                                    |
| 2017                              | 6,657            | 9,680                                    |
| 2018-2022                         | 38,539           | 48,764                                   |
| Total                             | <u>\$ 69,023</u> | <u>\$ 96,852</u>                         |

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. The University receives a Medicare Part D subsidy from the federal government as reimbursement for certain retiree health benefits paid to plan participants.

**14. Lease Obligations**

The University is the lessee of various equipment and space under noncancelable operating and capital leases. Capital lease obligations at June 30, 2012 and 2011, were \$114.4 million and \$114.8 million, respectively. Operating lease rental expense for the years ended June 30, 2012 and 2011, were approximately \$37.6 million and \$33.0 million, respectively. Space leases contained customary escalation clauses, which are included in annual aggregate minimum rentals.

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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>    |
|--|------------------|-------------------|
| 2013   | \$ 35,424        | \$ 7,220          |
| 2014   | 25,606           | 6,130             |
| 2015   | 21,443           | 5,234             |
| 2016   | 19,337           | 4,901             |
| 2017   | 17,457           | 4,941             |
| Thereafter                                     | 249,051          | 254,223           |
| Less: Interest at 1.48 percent to 5.31 percent |                  | (168,228)         |
| Capital lease obligations at June 30, 2012     |                  | <u>\$ 114,421</u> |

**15. Conditional Asset Retirement Obligations**

Conditional asset retirement obligations are 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. GAAP 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.

Conditional asset retirement obligations related to remediation or disposal of asbestos, underground storage tanks, soil, and radioactive sources and equipment were \$106.3 million and \$105.3 million at June 30, 2012 and 2011, respectively.

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**16. Bonds and Notes Payable**

Bonds and notes payable outstanding at June 30, 2012 and 2011, are as follows:

|  | <b>2012</b>         | <b>2011</b>         |
|--|---------------------|---------------------|
| Dormitory Authority of the State of New York, tax exempt revenue bonds, Columbia University issues |                     |                     |
| Series 2012 A, 3.00% to 5.00%, maturing 2023   | \$ 137,935          |                     |
| Series 2011 A, 3.00% to 5.00%, maturing 2042   | 300,000             | \$ 300,000          |
| Series 2009 A, variable rate, 0.01% to 0.24%, maturing 2039  | 117,000             | 117,000             |
| Series 2008 A, 5.00%, maturing 2038  | 200,000             | 282,715             |
| Series 2006 A, 4.75% to 5.25%, maturing 2031   | 197,080             | 203,220             |
| Series 2006 B, 3.50% to 5.25%, maturing 2022   | 135,330             | 143,265             |
| Series 2004 A2, 5.00%, maturing 2014   | 23,690              | 35,380              |
| Series 2004 B, 4.75% to 5.125%, maturing 2024  | 70,850              | 75,345              |
| Series 2004 C, 5.00%, maturing 2029  | 48,270              | 48,270              |
| Series 2003 A, 3.50% to 5.125%, maturing 2024  |                     | 63,120              |
| Series 2003 B, variable rate, 0.01% to 0.20%, maturing 2028  | 30,000              | 30,000              |
| Series 2002 A, 5.25%, maturing 2014  |                     | 15,485              |
| Series 2002 B, 5.00% to 5.25%, maturing 2024   |                     | 30,260              |
| Series 2002 C, variable rate, 0.09% to 0.17%, maturing 2027  | 23,300              | 23,300              |
|  | <u>1,283,455</u>    | <u>1,367,360</u>    |
| Taxable Series 2012, 3.827%, maturing 2043   | 100,000             |                     |
| Dormitory Authority of the State of New York, tax-exempt commercial paper                          |                     |                     |
| Series 1997, variable rate, 0.07% to 0.16%, final maturity 2015                                    | 13,395              | 19,095              |
| New Jersey Economic Development Corporation  |                     |                     |
| Series 2002, variable rate, 0.07% to 0.16%, final maturity 2028                                    | 7,530               | 7,890               |
| Medium-Term Notes, Taxable Series C 6.53% to 7.36%, maturing 2022                                  | 102,769             | 115,299             |
| Empire State Development Corporation Issues:   |                     |                     |
| Interest-free, maturing 2029   | 7,804               | 8,012               |
| Interest-free, maturing 2015   | 8,100               | 8,100               |
| Economic Development Corporation   |                     |                     |
| Interest-free, maturing 2015   | 10,000              | 10,000              |
| Dormitory Authority of the State of New York College and University Education Loan Revenue Bonds   |                     |                     |
| Series 1993, 5.60% to 5.65%, maturing 2013   | 1,589               | 1,834               |
| Series 1992, 6.80%, maturing 2013  | 1,258               | 1,570               |
|  | <u>252,445</u>      | <u>171,800</u>      |
| <b>Total bonds and notes payable</b>   | <u>\$ 1,535,900</u> | <u>\$ 1,539,160</u> |

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Estimated principal payments on bonds and certificates are summarized below:

| Year                      | Principal           |
|---------------------------|---------------------|
| 2013                      | \$ 57,004           |
| 2014                      | 56,172              |
| 2015                      | 58,409              |
| 2016                      | 55,613              |
| 2017                      | 38,904              |
| Thereafter (through 2043) | 1,269,798           |
| Total                     | <u>\$ 1,535,900</u> |

At June 30, 2012, the University's bonds and notes payable had a carrying amount of approximately \$1.5 billion, compared to an estimated fair value of \$1.7 billion. 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, 2012, \$102.8 million was outstanding. The University also has a \$150 million taxable commercial paper program. As of June 30, 2012, none of the taxable commercial paper was outstanding.

As of June 30, 2012, the University had a \$100 million operating line of credit, which expires in December, 2014. Additionally, as of June 30, 2012, the University had two \$100 million standby lines of credit supporting self-liquidity for variable rate debt outstanding, one of which expires in May, 2014. The other expired in July 2011 and was replaced subsequent to year end with a new \$100 million line of credit expiring in July, 2014. Each of the lines is with a different lending institution and, as of June 30, 2012, no balances were outstanding on the lines of credit.

The University issues most of its tax-exempt debt through the Dormitory Authority of the State of New York ("DASNY"). On June 7, 2012, the University issued \$137.9 million of Series 2012A fixed rate bonds. Series 2012A was issued at a premium of \$36.2 million, which will be amortized over 10 years. The proceeds from Series 2012A were used to finance various construction and renovation projects and to advance refund select maturities of DASNY Series 2008A. On May 15, 2012, the University issued \$100 million of Series 2012 taxable fixed rate bonds. The proceeds from taxable Series 2012 were used to finance various construction and renovation projects, to current refund outstanding maturities of Series 2002B, and advance refund Series 2003A. The advance refunding of these issues resulted in reduced bond principal of \$11.5 million and an accounting charge of \$6.8 million. The accounting charge represents the prepayment of interest and the expensing of deferred bond premiums on the extinguished issues. The University also chose to redeem Series 2002A bonds totaling \$10.6 million with a call date of July 1, 2012. The refunded and redeemed bonds were legally defeased and, as such, are not reflected in "Bonds and notes payable" at June 30, 2012. On October 1, 2008, the University entered into a \$200 million notional value forward starting, fixed payor swap agreement to protect against the risk of interest rate changes. The estimated fair value of the liability was (\$86.3) million and (\$39.5) million at June 30, 2012 and 2011, respectively. The fair value of the swap is obtained by taking the present value of all future cash flows on the swap implied by the forward curve.

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The University has certain financial and administrative covenants with which it was in compliance as of June 30, 2012 and 2011.

**17. 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's core liability coverage is purchased through Pinnacle RRG, a Vermont-based risk retention group with fifteen other universities.

The University obtains medical malpractice insurance through MCIC and MLMIC. 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. MLMIC is a mutual company where policyholders are owners, with full voting rights to elect the company's Board of Directors, thereby having direct input into vital areas of operation. The governing Board is comprised primarily of practicing physicians, dentists, and hospital administrators. More than 1,010 of the University's faculty physicians and dentists are enrolled in MCIC or MLMIC. The University has recorded self insurance and medical malpractice liabilities of approximately \$246.6 million and \$218.0 million as of June 30, 2012 and 2011, respectively. The medical malpractice liabilities of approximately \$173.4 million and \$150.7 million as of June 30, 2012 and 2011, respectively, are reported gross with an offsetting receivable for anticipated recoveries of \$110.4 million and \$96.7 million, respectively, recorded in Other assets, as discussed in Footnote No. 3.

**18. 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 Consolidated Statement of Activities. The most significant affiliation agreement is with 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 NYPH with medical, professional, and supervisory staff as well as other technical assistance. These services are reimbursed by NYPH. NYPH provides funding to the clinical departments for 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 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.

In addition the University and NYPH negotiate a joint budget, which forms the basis for the reimbursement agreement. The fiscal year 2012 joint budget was approximately \$215 million. The payments to NYPH for goods and services were \$90 million. The majority of revenues received pursuant to this reimbursement arrangement for services rendered are reflected in the consolidated

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financial statements as a portion of “Patient care revenue.” The majority of the expenses related to this agreement are reflected in “Patient care expense.”

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

The University has financial arrangements with several 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 non-controlled PCs generated revenue of approximately \$76 million and \$75 million during fiscal year 2012 and 2011, respectively, which has not been consolidated into the University’s consolidated financial statements. The University is also the sole corporate member of two not-for-profit practice entities and a professional corporation and as such, consolidates these entities into the University’s consolidated financial statements.

Pursuant to the consent of the Trustees of the CPMC Fund, Inc., during fiscal 2012, the CPMC Fund, Inc. transferred to the University ten endowments previously held for CPMC Fund, Inc. for the University. The value of the endowments at the time of transfer was \$6.5 million, with \$1.2 million being permanently restricted.

**19. 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.

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 is subject to laws and regulations concerning environmental remediation and will, from time to time, establish reserves for potential obligations that management considers probable and for which reasonable estimates can be made. As of June 30, 2012, the University has recorded \$106.3 million for conditional asset retirement obligations. These estimates may change depending upon the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. The University is not aware of any existing conditions that it currently believes are likely to have a material adverse effect on the University’s financial position, changes in net assets, or cash flows.

The University’s capital improvement program and related commitments includes projects that address the major strategic objectives of the University. As part of the capital improvement program, the University has entered into contracts to purchase properties with an aggregate value of \$41.1million. As of June 30, 2012 approximately \$34.2 million is still outstanding.

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The University has made commitments related to its expansion in Manhattanville, certain of which are based upon events in the future which would result in cash and in-kind payments from the University.

The University offered a loan program for students and families to pay tuition, fees and other costs. Loans were issued by a private lending institution and are guaranteed by the University. Upon default by the borrower, the University is required to pay all or a portion of the outstanding loan balance. The amount guaranteed is \$3.7 million and \$4.6 million as of June 30, 2012 and 2011, respectively.

The University has performed an evaluation of subsequent events through October 16, 2012, which is the date the consolidated financial statements were issued.

**20. Expense Allocation by Program**

Expenses are reported for the University's primary program activities. The consolidated 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:

|  | 2012                                 |            |                          | 2011                                 |            |                          |
|--|--------------------------------------|------------|--------------------------|--------------------------------------|------------|--------------------------|
|  | Expenses per Statement of Activities | Allocation | Final Allocated Expenses | Expenses per Statement of Activities | Allocation | Final Allocated Expenses |
| Instruction and educational administration | \$ 1,242,689                         | \$ 189,601 | \$ 1,432,290             | \$ 1,179,399                         | \$ 181,356 | \$ 1,360,755             |
| Research                                   | 578,151                              | 92,743     | 670,894                  | 559,326                              | 89,193     | 648,519                  |
| Patient care expense                       | 740,486                              | 42,524     | 783,010                  | 718,552                              | 45,507     | 764,059                  |
| Library                                    | 61,700                               | 40,935     | 102,635                  | 61,284                               | 36,502     | 97,786                   |
| Operation and maintenance of plant         | 224,614                              | (224,614)  |                          | 223,670                              | (223,670)  |                          |
| Institutional support                      | 210,091                              | 31,424     | 241,515                  | 226,643                              | 29,048     | 255,691                  |
| Auxiliary enterprise                       | 92,604                               | 75,723     | 168,327                  | 87,986                               | 76,213     | 164,199                  |
| Depreciation expense                       | 191,470                              | (191,470)  |                          | 175,248                              | (175,248)  |                          |
| Interest expense                           | 57,117                               | (57,117)   |                          | 59,086                               | (59,086)   |                          |
| Other                                      | 26,139                               | 251        | 26,390                   | 23,621                               | 185        | 23,806                   |
|  | <u>\$ 3,425,061</u>                  |            | <u>\$ 3,425,061</u>      | <u>\$ 3,314,815</u>                  |            | <u>\$ 3,314,815</u>      |

The allocation of operation and maintenance of plant is based on square footage occupancy with the exception of certain rent costs directly attributable to patient care expense. 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.