TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Financial Statements

August 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Trustees
Teachers College, Columbia University:

We have audited the accompanying balance sheets of Teachers College, Columbia University (the College) as of August 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Teachers College, Columbia University as of August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 9 to the financial statements, in 2011 New York State passed the *New York Prudent Management of Institutional Funds Act*. Pursuant to this change in law, the College adopted certain provisions of Financial Accounting Standards Board Accounting Standards Codification 958-205, *Not-for-Profit Entities*, with respect to its accounting for endowment funds.

KPMG LLP

December 19, 2011

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Balance Sheets

August 31, 2011 and 2010

Assets		**2011**	**2010**
Cash and cash equivalents	$	21,498,061	8,723,069
Student accounts and other receivables, net (note 4)		3,986,484	4,073,337
Grants and contracts receivable		4,839,346	4,215,441
Inventories and other assets		3,974,705	3,880,595
Contributions receivable, net (notes 5 and 12)		6,314,282	5,498,408
Funds held by bond trustees (notes 7 and 12)		3,546,881	6,082,821
Investments (notes 3 and 12)		219,504,282	209,573,019
Student loans receivable, net (note 4)		3,567,584	3,764,131
Plant assets, net (note 6)		119,538,915	119,152,831
Total assets	$	386,770,540	364,963,652
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	15,770,405	16,371,481
Deferred revenues (note 13)		17,739,737	16,442,169
Long-term debt (note 7)		85,007,068	86,213,462
Accrued pension and other benefit obligations (note 8)		38,981,413	61,802,364
Other liabilities (note 7)		2,225,669	9,554,774
U.S. government grants refundable		2,970,189	3,050,030
Total liabilities		162,694,481	193,434,280
Commitments and contingencies (notes 3, 8, and 14)			
Net assets (note 9):			
Unrestricted:			
Endowment and other		108,091,980	148,083,875
Pension and postretirement obligations		(38,981,413)	(61,802,364)
Total unrestricted net assets		69,110,567	86,281,511
Temporarily restricted		78,081,358	9,127,070
Permanently restricted		76,884,134	76,120,791
Total net assets		224,076,059	171,529,372
Total liabilities and net assets	$	386,770,540	364,963,652

See accompanying notes to financial statements.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Statements of Activities

Years ended August 31, 2011 and 2010

	2011	2010
Changes in unrestricted net assets:		
Operating revenues:		
Student tuition and fees, net (note 10)	$ 102,282,626	95,079,521
Government appropriations	614,994	623,620
Grants and contracts	38,131,693	35,333,349
Contributions	2,389,820	2,980,923
Investment return appropriated (note 3)	10,458,664	13,121,565
Sales and services of auxiliary enterprises	20,511,141	20,158,864
Other sources	1,645,530	2,042,000
Net assets released from restrictions	1,346,084	976,140
Total operating revenues	177,380,552	170,315,982
Operating expenses:		
Instruction	60,423,611	59,595,740
Research, training, and public service	34,554,581	35,913,574
Academic support	13,295,917	12,948,019
Student services	9,107,282	9,651,938
Institutional support (note 11)	28,398,240	24,394,385
Auxiliary enterprises	21,823,534	21,730,647
Total operating expenses	167,603,165	164,234,303
Increase in unrestricted net assets from operations, carried forward	$ 9,777,387	6,081,679

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TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Statements of Activities

Years ended August 31, 2011 and 2010

		2011	2010
Increase in unrestricted net assets from operations, brought forward	$	9,777,387	6,081,679
Nonoperating activities:			
Investment return, net of amounts appropriated (note 3)		3,922,242	2,950,248
Gains (losses) related to swap (note 7)		2,757,828	(3,177,891)
Investment return on funds held by bond trustees		6,359	9,329
Change in value of split-interest agreements		47,617	28,879
Pension and postretirement changes other than net periodic benefit cost (note 8)		24,358,319	(2,191,969)
Net assets released from restrictions for capital		355,000	604,572
Net asset reclassification based on adoption of ASC 958-205 (note 9)		(58,395,696)	—
(Decrease) increase in unrestricted net assets		(17,170,944)	4,304,847
Changes in temporarily restricted net assets:			
Contributions		3,174,642	1,191,260
Investment return, net of amounts appropriated (note 3)		9,107,208	—
Change in value of split-interest agreements		76,192	(62,534)
Net asset reclassifications and other transfers (note 9)		58,297,330	—
Net assets released from restrictions		(1,701,084)	(1,580,712)
Increase (decrease) in temporarily restricted net assets		68,954,288	(451,986)
Changes in permanently restricted net assets:			
Contributions		552,677	561,679
Change in value of split-interest agreements		112,300	11,999
Net asset reclassification		98,366	—
Increase in permanently restricted net assets		763,343	573,678
Increase in net assets		52,546,687	4,426,539
Net assets at beginning of year		171,529,372	167,102,833
Net assets at end of year	$	224,076,059	171,529,372

See accompanying notes to financial statements.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Statements of Cash Flows

Years ended August 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase in net assets	$ 52,546,687	4,426,539
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Net appreciation in fair value of investments	(24,963,982)	(17,865,708)
Interest rate swap (gain) loss	(2,757,828)	3,177,891
Depreciation	8,608,126	8,798,099
Provision for (recovery of) uncollectible amounts	156,531	(727,909)
Amortization of bond issuance costs	82,134	123,641
Amortization of bond discount	25,400	25,400
Contributions restricted for permanent investment	(476,320)	(593,634)
Change in value of split-interest agreements	(169,456)	37,127
Pension and postretirement changes other than net periodic benefit cost	(24,358,319)	2,191,969
Changes in operating assets and liabilities:		
Student accounts and other receivables	(14,901)	470,621
Grants and contracts receivable	(623,905)	(651,000)
Inventories and other assets	(176,244)	27,551
Contributions receivable, except for amounts restricted for permanent investment and plant assets	(1,002,036)	(559,416)
Accounts payable and accrued expenses and other liabilities	(508,037)	(2,736,764)
Deferred revenues	1,297,568	(6,808,336)
Accrued pension and other benefit obligations	1,537,368	7,209,445
U.S. government grants refundable	(79,841)	680,934
Net cash provided by (used in) operating activities	9,122,945	(2,773,550)
Cash flows from investing activities:		
Loans made to students	(400,548)	(408,244)
Repayments received on student loans	464,521	388,301
Purchase of plant assets	(8,994,210)	(5,226,393)
Change in amounts related to plant assets included in accounts payable and accrued expenses	(22,427)	(448,722)
Purchases of investments	(273,552,800)	(87,417,229)
Proceeds from sales of investments	288,722,914	98,792,819
Swap termination and carry cost payments	(4,600,446)	(5,435,746)
Net cash provided by investing activities	1,617,004	244,786
Cash flows from financing activities:		
Contributions restricted for permanent investment	476,320	593,634
Decrease in contributions receivable restricted for permanent investment and plant assets	347,644	677,505
Repayment of indebtedness	(1,231,795)	(1,546,455)
Change in funds held by bond trustees	2,535,940	2,091,177
Investment income on split-interest agreements, net of payments to annuitants	(93,066)	(76,960)
Net cash provided by financing activities	2,035,043	1,738,901
Net increase (decrease) in cash and cash equivalents	12,774,992	(789,863)
Cash and cash equivalents at beginning of year	8,723,069	9,512,932
Cash and cash equivalents at end of year	$ 21,498,061	8,723,069
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,934,803	4,692,451

See accompanying notes to financial statements.

(1) Description of Business

(a) Discussion of Operations

Teachers College, Columbia University (the College) is a graduate and professional school of education. The College engages in five basic activities: (1) research on critical issues of education; (2) instruction of future leaders-practitioners, policymakers, and academicians; (3) education of current leaders-teachers, principals, superintendents, board members, legislators, presidents, members of the media, and representatives of foundations and corporations; (4) development of the public discourse and national agenda for education; and (5) improvement of the practice of educational institutions via laboratories, models, and demonstration projects. The College has one subsidiary, a Japanese corporation, through which the College provides educational programs in Japan. This subsidiary's activities are included in the accompanying financial statements. The College was founded in 1887 and became affiliated with Columbia University in 1898. Under an arrangement with Columbia University, the faculty of the College was designated as faculty of Columbia University, but retained its legal and financial independence. The College remains a separate corporation.

(b) Tax Status

The College is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The College recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. No provision for income taxes was required for fiscal years 2011 or 2010.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board for external financial reporting by not-for-profit organizations. Accordingly, net assets of the College and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that will be met by either actions of the College or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that stipulate that they be maintained permanently by the College, but permit the College to expend part or all of the income derived therefrom for general or donor-specified purposes.

Revenues and gains and losses on investments and other assets are reported as changes in unrestricted net assets unless limited by explicit donor-imposed restrictions or by law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as increases in unrestricted net assets if the purpose or time restrictions are met in the same reporting period that such assets are received; otherwise, they are reported as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets.

(b) Cash Equivalents

All highly liquid debt instruments with a maturity of three months or less are considered to be cash equivalents, except for such assets that are part of the College's investment portfolio managed by external investment managers for long-term purposes.

(c) Contributions

Contributions, including unconditional promises to give, are reported as revenues in the period received or pledged. Contributions of assets other than cash are recorded at their estimated fair value. The College reports contributions of plant assets as increases in unrestricted net assets unless the donor places restrictions on their use. Contributions to be received after one year are discounted at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution. An allowance is recorded for uncollectible contributions based on management's judgment, past collection experience, and other relevant factors.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

(d) Grants and Contracts

Grants and contracts are reported as unrestricted revenues when expenses are incurred in accordance with the terms of the agreement. Amounts received in advance are recorded as deferred revenues.

(e) Inventories

Inventories, including books published by the Teachers College Press, are valued at the lower of average cost or market (net realizable value).

(f) Plant Assets

Plant assets, including land, buildings, building improvements, and furniture and equipment, as well as assets under capital lease with the Dormitory Authority of the State of New York (DASNY) are stated at cost or fair value at the date of gift for assets contributed. All plant assets, other than land, are depreciated over the following useful lives using the straight-line method:

Buildings	50 years
Building improvements	20 years
Furniture and equipment	5 years

(g) U.S. Government Grants Refundable

Funds provided by the U.S. government under the Federal Perkins and Nursing Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. government and are presented in the accompanying balance sheets as a liability.

(h) Split-Interest Agreements

The College's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and a charitable lead trust, for which the College does not serve as trustee, perpetual trusts, and pooled life income funds. Assets of pooled life income funds and charitable gift annuities are included in investments. Assets from charitable remainder trusts, perpetual lead trusts, and the charitable lead trust are reflected as contributions receivable in the accompanying balance sheets. Contributions are recognized at the date the trusts or pooled life income funds are established at the present value of the estimated future cash flows expected to be received by the College. The College's interest in such split-interest gifts is adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

In addition, the College has the irrevocable right to receive income earned on two perpetual trusts. The College's beneficial interest in the value of the trusts' assets is classified as permanently restricted net assets. Changes in the value of the College's interest are recorded as permanently restricted activities in the accompanying statements of activities.

(i) Derivative Instrument

The College held an interest rate swap through February 2011 that was used to manage its variable rate long-term debt exposure (note 7). This instrument was recorded at fair value in the accompanying balance sheet for the fiscal year ended August 31, 2010, and the carrying costs, termination costs, and change in fair value are recorded as a nonoperating activity in the 2011 and 2010 statements of activities.

(j) Operations

The accompanying statements of activities distinguish between operating and nonoperating activities. Nonoperating activities principally include those activities affecting the change in temporarily and permanently restricted net assets, as well as the difference between investment return on board-designated quasi-endowed funds and the amounts authorized for spending by the College's trustees (note 3) on those funds, investment return on funds held by bond trustees, charges associated with the interest rate swap, pension and postretirement changes other than net periodic benefit cost (note 8), net assets released from restrictions for capital, and certain other nonrecurring activities.

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(k) Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of the financial statements include valuation of investments and the accrued postretirement pension and other benefit obligations, and the net realizable value of receivables. Actual results could differ from those estimates.

(3) Investments

A summary of the College's investments at August 31, 2011 and 2010 is as follows:

		2011	2010
Money market funds	$	17,803,224	40,397,837
Fixed income securities		321,566	242,451
Domestic common stock		32,958,287	25,417,685
Mutual funds		15,763,801	29,798,335
Exchange traded funds		19,889,237	7,106,363
Foreign currency fund		7,348,427	—
Nonpublic equity funds		96,915,018	81,731,427
Private equity and real estate funds		28,504,722	24,878,921
	$	219,504,282	209,573,019

Money market funds, domestic common stock, and mutual funds are reported at fair value based upon quoted market prices.

The foreign currency fund invests in an actively managed, short duration emerging market local currency portfolio in order to diversify U.S. dollar based portfolios as well as to take advantage of the short-term interest rate differences between U.S. and emerging market currencies. Withdrawals from the fund can be made each calendar month with a 14-day notice period.

Nonpublic equity funds include investment funds whose underlying investments are publicly traded domestic and international equities and interests in limited partnerships and limited liability corporations that may employ both long and short strategies and invest in public equities, internationally developed and emerging markets, and other marketable securities. These interests have varying degrees of liquidity, ranging from monthly to annually with 6 to 90 days notice, except for two funds with a combined value of approximately $2.2 million that cannot be redeemed and four funds subject to lock up ending in fiscal years 2012 and 2013 with a total market value of $23.3 million. Once the lock up periods expire, these funds will have similar redemption frequencies as the other nonpublic equity funds.

Private equity and real estate funds include interests in limited partnerships and limited liability corporations that invest in private equity buyouts, distressed credit opportunities, real estate, and other private equity strategies. Under the terms of certain limited partnership agreements, the College is obligated to periodically advance additional funding for these limited partnership investments. At August 31, 2011, the College had outstanding commitments of approximately $6.6 million. The College maintains sufficient liquidity in its investment portfolio to cover such calls. Such commitments, generally, have fixed expiration dates or other termination clauses ranging from April 2012 to December 2018. These funds offer no redemptions.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in their values will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

Investments include $1,537,382 and $1,632,760 of assets relating to split-interest agreements at August 31, 2011 and 2010, respectively.

The following summarizes the College's total return on investments and its classification in the financial statements for the years ended August 31, 2011 and 2010:

		2011	2010
Dividends and interest	$	1,392,186	1,299,191
Net appreciation in fair value of investments		24,963,982	17,865,708
Investment fees and expenses		(2,868,054)	(3,093,086)
Total return on investments		23,488,114	16,071,813
Investment return appropriated for spending		10,458,664	13,121,565
Investment return reported as nonoperating and temporarily restricted	$	13,029,450	2,950,248

(4) Allowances for Uncollectible Accounts and Loans Receivable

Student accounts and other receivables are reported net of an allowance for uncollectible amounts of approximately $536,000 and $434,000 at August 31, 2011 and 2010, respectively.

Student loans receivable are reported net of an allowance for uncollectible amounts of approximately $444,000 and $474,000 at August 31, 2011 and 2010, respectively.

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(5) Contributions Receivable, Net

Contributions receivable consist of the following at August 31, 2011 and 2010:

		2011	2010
Amounts receivable from charitable remainder trusts	$	331,269	319,248
Beneficial interest in perpetual trusts		808,924	751,427
Amounts receivable from charitable lead trust		269,854	255,925
Amounts expected to be collected in:			
Less than one year		1,722,118	1,608,690
One to five years		3,095,812	3,094,315
More than five years		445,000	10,000
		6,672,977	6,039,605
Less allowance for uncollectible amounts		(35,000)	(164,000)
Less discount to present value (at discount rates ranging from 0.96% to 6.00%)		(323,695)	(377,197)
	$	6,314,282	5,498,408

(6) Plant Assets, Net

Plant assets consist of the following at August 31, 2011 and 2010:

		2011	2010
Land	$	642,443	642,443
Buildings and improvements		90,500,112	88,516,355
Furniture and equipment		31,453,285	29,933,552
Under capital lease with DASNY and other lenders:			
Land		50,000	50,000
Buildings and improvements		109,243,281	107,230,035
Furniture and equipment		11,338,231	10,849,140
		243,227,352	237,221,525
Less accumulated depreciation		(129,427,265)	(121,127,343)
Construction in progress		5,738,828	3,058,649
	$	119,538,915	119,152,831

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(7) Long-Term Debt and Derivative Instrument

Long-term debt at August 31, 2011 and 2010 consists of the following:

		2011	2010
DASNY:			
Series 2002 Insured Revenue Bonds (a)	$	32,995,000	34,145,000
Series 2009 Insured Revenue Bonds, net of unamortized bond discount of $696,318 and $721,718, respectively (b)		51,898,682	51,873,282
Equipment leases (c)		113,386	195,180
Total debt outstanding	$	85,007,068	86,213,462

(a) In August 2002, DASNY issued Insured Revenue Bonds, Series 2002 (Series 2002 Bonds) in the amount of $42,085,000 on behalf of the College. The Series 2002 Bonds are due through 2032 with interest rates ranging from 4.000% to 5.375%. Principal amounts are payable annually on July 1, and interest is payable semiannually on January 1 and July 1. The College used the proceeds from the Series 2002 Bonds to finance various capital renovations. The College has pledged revenues as security interest for the performance of all obligations under the Series 2002 loan agreement. In the event that liability payments are made from the College's general funds, or from any moneys legally available to it for such purposes, the College will not be required to deliver pledged revenues to the bond trustee.

At August 31, 2011 and 2010, the College had unamortized bond issuance costs of $889,169 and $931,610, respectively, relating to the Series 2002 Bonds, which have been deferred and are being amortized over the life of the Series 2002 Bonds.

(b) In January 2009, DASNY issued Insured Revenue Bonds, Series 2009 (Series 2009 Bonds) in the amount of $52,595,000 on behalf of the College at a discount of $762,010. The College used the proceeds from the Series 2009 Bonds to redeem the Insured Revenue Bonds, Series 2007 (Series 2007 Bonds) and to finance various capital improvements and renovations.

The Series 2009 Bonds are due through 2039 with interest rates ranging from 3.0% to 5.5%. Principal amounts are payable annually beginning on March 1, 2015. Interest is payable semiannually on March 1 and September 1. In issuing the Series 2009 Bonds, the College incurred bond issuance costs of $1,257,990, which have been deferred and are being amortized over the life of the related debt. At August 31, 2011 and 2010, the College had unamortized bond issuance costs of $1,112,706 and $1,152,399, respectively. The Series 2009 Bonds are secured by the pledge of revenues, the proceeds of the Series 2009 Bonds, and certain funds and accounts established by the Series 2009 Bonds.

The Series 2009 Bonds require compliance with certain financial and nonfinancial debt covenants.

At August 31, 2011 and 2010, bond trustees held unexpended funds of $1,199,984 and $1,378,408, respectively, relating to the Series 2007 Bonds and $2,346,897 and $4,704,413, respectively, relating to the Series 2009 Bonds. In 2011 and 2010, such funds were invested in cash and short-term government securities.

(c) The obligation under equipment leases is payable in monthly installments through September 2013 and bears interest at rates ranging from 3.35% to 3.59%.

(d) In August 2003, the College entered into a floating-to-fixed interest rate swap agreement as a hedge on its Taxable Series 2003 Bonds (Series 2003 Bonds), which have since been retired. Subsequent to the retirement of the Series 2003 Bonds, the swap continued to hedge other outstanding debt until the refinancing of the Series 2007 Bonds in 2009. Under the arrangement, the College received the one-month London Interbank Offered Rate (LIBOR) (0.2755% at August 31, 2010) and paid a fixed rate of 5.816%. In April 2010, the College paid approximately $3.5 million to terminate a notional amount of $22.3 million. The remaining notional amount, $21.25 million, was terminated in February 2011 at a cost of approximately $4.1 million. The fair value of the swap agreement reported in other liabilities in the accompanying August 31, 2010 balance sheet approximated $7.4 million. The nonoperating charge in 2011 and 2010 reflects change in value, $7.4 million and $2.3 million, respectively, as well as termination and other carrying costs of $4.6 million and $5.4 million, respectively.

The fair value of the College's long-term debt approximated $91.8 million and $94.2 million at August 31, 2011 and 2010, respectively. This amount was estimated by discounting future cash flows associated with the debt by current market rates for bonds with the same or similar maturities and credit quality.

The minimum annual payments for principal are as follows:

Year ending August 31:		
2012	$	1,248,381
2013		1,300,307
2014		1,299,698
2015		2,915,000
2016		2,690,000
Thereafter		76,250,000
Total principal payments		85,703,386
Unamortized bond discount		(696,318)
Total debt outstanding	$	85,007,068

Interest expense was approximately $4.4 million and $4.5 million in 2011 and 2010, respectively.

(8) Pension and Postretirement Benefit Plans

The College has a contributory defined contribution plan covering academic and professional employees. Total expense recognized under this plan for the years ended August 31, 2011 and 2010 was approximately $5,875,000 and $5,798,000, respectively.

The College also has a noncontributory defined benefit pension plan covering nonacademic union employees. Benefits under this plan are based on years of service and the employee's regular remuneration averaged over the period of the highest five consecutive years during the last ten years of service.

In addition, the College provides health insurance coverage to retired faculty and professional staff and their dependents. Faculty and professional staff hired before January 1, 2006 become eligible for these benefits if they are at least 55 years of age and have a minimum of 15 years of service. This plan was amended on June 16, 2010 whereby eligible professional staff who retire after August 31, 2011, and eligible faculty who retire after August 31, 2013, will contribute to the plan based upon their age and years of service.

The following table provides information with respect to the defined benefit pension and postretirement benefit plans as of and for the years ended August 31, 2011 and 2010:

	Pension benefits		Postretirement benefits	
	2011	**2010**	**2011**	**2010**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 45,053,686	39,563,760	41,064,928	37,168,833
Service cost	1,732,019	1,208,067	527,352	1,555,496
Interest cost	2,078,371	2,133,909	1,125,705	2,433,716
Actuarial (gain) loss	(4,946,359)	4,219,865	(18,014,647)	10,663,821
Plan amendments	—	—	—	(10,002,083)
Benefits paid	(2,294,440)	(2,071,915)	(1,116,771)	(754,855)
Benefit obligation at end of year	41,623,277	45,053,686	23,586,567	41,064,928
Change in plan assets:				
Fair value of plan assets at beginning of year	24,316,250	24,331,643	—	—
Actual return on plan assets	3,333,699	2,056,522	—	—
Employer contribution	872,922	—	1,116,771	754,855
Benefits paid	(2,294,440)	(2,071,915)	(1,116,771)	(754,855)
Fair value of plan assets at end of year	26,228,431	24,316,250	—	—
Funded status, recognized in the balance sheets	$ (15,394,846)	(20,737,436)	(23,586,567)	(41,064,928)

Accumulated amounts recorded in unrestricted net assets other than through net periodic benefit cost at August 31, 2011 and 2010 consist of the following:

	Pension benefits		Postretirement benefits	
	2011	**2010**	**2011**	**2010**
Prior service credit	$ —	—	8,474,767	10,083,235
Net actuarial loss	(9,512,207)	(17,225,290)	(4,261,134)	(22,514,838)
	$ (9,512,207)	(17,225,290)	4,213,633	(12,431,603)

The estimated net loss for the pension plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2012 is $1,307,868. The estimated net loss and prior service credit for the postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2012 are $204,567 and $1,608,468, respectively.

The following table provides the actuarial assumptions:

	Pension benefits		Postretirement benefits	
	2011	**2010**	**2011**	**2010**
Weighted average assumptions used to determine benefit obligations:				
Discount rate	5.74%	4.75%	5.69%	5.00%
Rate of compensation increase	4.50	4.50	—	—
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	4.75	5.75	5.00	5.75
Expected return on plan assets	8.00	8.00	—	—
Rate of compensation increase	4.50	4.50	—	—

For measurement purposes, the annual rate of increase in the per capita cost of covered healthcare benefits is as follows:

	2011	**2010**
Assumed healthcare cost trend rates:		
Healthcare cost trend rate assumed for next year	7.70%	7.90%
Healthcare cost trend assumed to decline	4.50%	4.70%
Ultimate trend rate achieved	2027	2061

The following table provides the components of net periodic benefit cost recognized in the accompanying statements of activities:

	Pension benefits		Postretirement benefits	
	2011	**2010**	**2011**	**2010**
Service cost	$ 1,732,019	1,208,067	527,352	1,555,496
Interest cost	2,078,371	2,133,909	1,125,705	2,433,716
Expected return on plan assets	(1,874,843)	(1,861,033)	—	—
Amortization of prior service (credit) cost	—	—	(1,608,468)	5,973
Loss recognized	1,307,868	916,303	239,057	1,571,869
Net periodic benefit cost	$ 3,243,415	2,397,246	283,646	5,567,054

Other changes in plan assets and benefit obligations recognized in unrestricted net assets at August 31, 2011 and 2010 are as follows:

	Pension benefits		Postretirement benefits	
	2011	**2010**	**2011**	**2010**
Pension and postretirement changes other than net periodic benefit cost:				
Net (gain) loss	$ (6,405,215)	4,024,376	(18,014,647)	10,663,821
Prior service credit	—	—	—	(10,002,083)
Amortization of prior service credit (cost)	—	—	1,608,468	(5,973)
Amortization of net loss	(1,307,868)	(916,303)	(239,057)	(1,571,869)
Total amount recognized in unrestricted net assets	$ (7,713,083)	3,108,073	(16,645,236)	(916,104)

The accumulated benefit obligation for the pension plan at August 31, 2011 and 2010 was $37,430,378 and $40,222,054, respectively.

Pension plan assets consist of an interest in a commingled fund, which is reported at the net asset value provided by the fund manager. The fund is classified as Level 2 within the fair value hierarchy. The College’s overall investment strategy is to provide liquidity to fund current benefit payments as well as to provide for long-term growth through appreciation. The target allocations for plan assets are 62% equity securities, 33% fixed income, and 5% other investment types.

As of August 31, 2011 and 2010, the fund's composition was as follows:

	2011	2010
Domestic equities	41%	46%
International equities/emerging markets equities	23	17
Fixed income:		
U.S. treasury securities	3	6
Mortgages	8	15
Corporate bonds	5	7
High yield bonds	6	—
Other fixed income	9	3
Real estate	5	6
	100%	100%

The expected long-term rate of return on assets assumption is 8%. The assumption has been determined by developing expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid under this plan for the year(s) ending August 31:

2012	$ 2,287,999
2013	2,426,685
2014	2,567,268
2015	2,609,956
2016	2,668,971
2017 – 2021	14,678,459

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 was reflected as of September 1, 2005, assuming that the College will continue to provide a prescription drug benefit to plan participants that is at least actuarially equivalent to Medicare Part D and that the College will receive the federal subsidy until 2015.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid under the postretirement plan for the year(s) ending August 31:

	Expected benefits reflecting Medicare subsidy
2012	$ 1,297,273
2013	1,338,611
2014	1,428,743
2015	1,474,697
2016	1,546,778
2017 – 2021	8,370,436

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-percentage-point increase	One-percentage-point decrease
Impact of 1% change in healthcare cost trend rates:		
Effect on total service and interest cost components	$ 265,561	(215,900)
Effect on postretirement benefit obligation	3,318,101	(2,624,144)

(9) Net Assets

(a) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at August 31, 2011 and 2010 primarily comprise unappropriated income on donor-restricted endowment funds and nonendowment contributions restricted for specific purposes or future periods. Temporarily restricted net assets are restricted for the following purposes:

		2011	2010
Donor-restricted unappropriated earnings restricted for:			
Scholarships and financial aid	$	6,937,731	—
Professorships and lectureships		15,502,758	—
Research and experimentation		29,007,878	—
Other		16,054,537	—
Other restrictions:			
Scholarships, fellowships, professorships, and lectureships		7,277,384	5,404,796
Capital projects		1,391,923	1,711,853
Future periods		1,909,147	2,010,421
Total	$	78,081,358	9,127,070

Permanently restricted net assets at August 31, 2011 and 2010 are restricted to investment in perpetuity, and associated investment return is restricted for the following:

		2011	2010
Scholarships and financial aid	$	36,206,871	35,630,292
Professorships and lectureships		22,688,409	22,686,872
Research and experimentation		9,924,265	9,922,954
Other		8,064,589	7,880,673
Total	$	76,884,134	76,120,791

(b) Endowment Funds

The College's endowment consists of both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature totaled approximately $534,000 and $2.1 million at August 31, 2011 and 2010, respectively.

The investment objectives for the College's endowment are to preserve the principal value of those funds, in both absolute as well as real terms, provide a stable source of perpetual financial support to endowment beneficiaries, and maximize over the long term the total rate of return earned without assuming an unreasonable degree of risk. In connection with these investment objectives, the board of trustees has adopted a spending policy. The amount available for spending is determined annually by applying a rate of 5% to the 16-quarter moving average of the fair value of the endowment.

The College's management and investment of donor-restricted endowment funds has historically been subject to the provisions of the Uniform Management and Institutional Funds Act (UMIFA) and the New State Trust Laws. In September 2010, the State of New York enacted the *New York Prudent Management of Institutional Funds Act* (NYPMIFA), effective immediately. Among NYPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending. The financial reporting and disclosure implications stemming from the enactment of this law, and as provided by Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities*, are reflected in the 2011 financial statements.

The College has interpreted NYPMIFA as allowing the College to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund, as is deemed prudent for uses, benefits, purposes, and duration for which the endowment is established, subject to the intent of the donor as expressed in the gift instrument, absent donor stipulations to the contrary. As a result of this interpretation, the College has not changed the way permanently restricted net assets are classified.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Pursuant to this change in law and in accordance with ASC 958-205, the College reclassified net assets of $58.4 million from unrestricted net assets to temporarily restricted net assets in the 2011 statement of activities.

The tables that follow present information with respect to the College's endowment as of and for the years ended August 31, 2011 and 2010. Endowment net assets consist of the following at August 31, 2011 and 2010:

	August 31, 2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted	$ (533,877)	67,502,904	74,761,737	141,730,764
Board-designated	67,026,617	—	—	67,026,617
Total	$ 66,492,740	67,502,904	74,761,737	208,757,381

	August 31, 2010			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted	$ 56,815,362	—	74,148,021	130,963,383
Board-designated	54,234,456	—	—	54,234,456
Total	$ 111,049,818	—	74,148,021	185,197,839

Changes in endowment net assets during the fiscal years ended August 31, 2011 and 2010 are as follows:

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets, August 31, 2010	$ 111,049,818	—	74,148,021	185,197,839
Net asset reclassification based on adoption of ASC 958-205	(58,395,696)	58,395,696	—	—
Dividends and interest	397,093	843,823	—	1,240,916
Current year gifts/additions	10,005,549	—	613,716	10,619,265
Appropriation for expenditure	(3,304,089)	(7,021,190)	—	(10,325,279)
Investment gain, net	6,740,065	15,284,575	—	22,024,640
Net assets, August 31, 2011	$ 66,492,740	67,502,904	74,761,737	208,757,381

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, August 31, 2009	$ 108,127,740	—	73,360,262	181,488,002
Dividends and interest	1,148,491	—	—	1,148,491
Current year gifts/additions	6,500	—	787,759	794,259
Appropriation for expenditure	(12,716,646)	—	—	(12,716,646)
Investment gain, net	14,483,733	—	—	14,483,733
Net assets, August 31, 2010	$ 111,049,818	—	74,148,021	185,197,839

(10) Student Aid

Student tuition and fees are presented net of amounts awarded to students to defray their cost of attending the College. Student aid totaled $18,668,752 and $18,137,310 in fiscal years 2011 and 2010, respectively.

(11) Fund-Raising Expenses

Fund-raising expenses are included in institutional support in the accompanying statements of activities. For the years ended August 31, 2011 and 2010, fund-raising costs incurred by the College's development office for contributions and certain private grants and contracts amounted to approximately $6.2 million and $6.1 million, respectively.

(12) Fair Value of Financial Instruments

At August 31, 2011 and 2010, the carrying values of the College's cash and cash equivalents, receivables, and accounts payable and accrued expenses approximated their fair values. A reasonable estimate of the fair value of loans to students under government loan programs cannot be made because the loans are not saleable and can only be assigned to the U.S. government or its designees.

For all assets and liabilities reported at fair value, the College employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active or investments in investment companies that are redeemable on or near the balance sheet date.
- Level 3 Inputs that are unobservable and investments in investment companies that are not redeemable near the balance sheet date.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following tables present the fair value hierarchy for the College's assets and liabilities, which are reported in the August 31, 2011 and 2010 balance sheets at fair value:

	2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Money market funds	$ 17,803,224	17,803,224	—	—
Fixed income securities	321,566	321,566	—	—
Domestic common stock	32,958,287	32,958,287	—	—
Mutual funds:				
Equity mutual funds	10,195,522	10,195,522	—	—
Global hard assets	5,568,279	5,568,279	—	—
Exchange traded funds	19,889,237	19,889,237	—	—
Nonpublic investments:				
Foreign currency	7,348,427	—	7,348,427	—
Nonpublic equity	96,915,018	—	71,432,272	25,482,746
Private equity	20,977,069	—	—	20,977,069
Real estate	7,527,653	—	—	7,527,653
Total investments	219,504,282	86,736,115	78,780,699	53,987,468
Funds held by bond trustees	3,546,881	3,546,881	—	—
Charitable remainder, lead, and perpetual trusts in contributions receivable	1,313,689	—	—	1,313,689
Total assets	$ 224,364,852	90,282,996	78,780,699	55,301,157

	2010			
	Total	Level 1	Level 2	Level 3
Investments:				
Money market funds	$ 40,397,837	40,397,837	—	—
Fixed income securities	234,451	234,451	—	—
Domestic common stock	25,417,685	25,417,685	—	—
Mutual funds:				
Equity mutual funds	19,151,183	19,151,183	—	—
Bond mutual funds	10,647,152	10,647,152	—	—
Exchange traded funds	7,106,363	7,106,363	—	—
Nonpublic investments:				
Nonpublic equity	81,739,427	12,705	75,788,598	5,938,124
Private equity	18,411,366	—	—	18,411,366
Real estate	6,467,555	—	—	6,467,555
Total investments	209,573,019	102,967,376	75,788,598	30,817,045
Funds held by bond trustees	6,082,821	6,082,821	—	—
Charitable remainder, lead, and perpetual trusts in contributions receivable	1,230,005	—	—	1,230,005
Total assets	$ 216,885,845	109,050,197	75,788,598	32,047,050
Liabilities:				
Interest rate swap agreement	$ 7,358,274	—	7,358,274	—

The following table presents a reconciliation of Level 3 assets for the years ended August 31, 2011 and 2010:

	2011	2010
Beginning balance	$ 32,047,050	44,817,506
Net appreciation in fair value	5,209,350	4,233,670
Purchases	28,602,751	2,356,616
Dispositions	(8,017,807)	(8,686,448)
Transfers out of Level 3	(2,540,187)	(13,026,954)
Transfers into Level 3	—	2,352,660
Ending balance	$ 55,301,157	32,047,050

(13) Deferred Revenue

Deferred revenue consists of the following at August 31, 2011 and 2010:

	2011	2010
Federal and private grants	$ 12,752,176	10,775,272
Student tuition and loans	4,326,198	5,174,713
Other	661,363	492,184
	$ 17,739,737	16,442,169

(14) Commitments and Contingencies

(a) Government Funding

Amounts received and expended by the College under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, would not have a significant effect on the financial position of the College.

(b) Operating Leases

The College has operating leases for building space and certain furnishings through July 31, 2020. Minimum future rental payments under these leases are as follows:

Year ending August 31:	
2012	$ 802,519
2013	171,376
2014	138,557
2015	138,557
2016	138,557
Thereafter	542,683
	$ 1,932,249

Total rent expense for the years ended August 31, 2011 and 2010 amounted to approximately $916,000 and $690,000, respectively.

(c) Line of Credit

The College has a revolving credit arrangement with a bank that provides for a line of credit up to $15 million, which was not drawn upon for the years ended August 31, 2011 and 2010. Borrowings under the line of credit will bear interest at the following options: (1) the bank's prime rate or (2) the one-month LIBOR plus 1.15% or (3) a negotiated rate with the bank.

(d) Litigation

The College, in the normal course of its operations, is a defendant in various lawsuits. While it is not feasible to predict the ultimate outcomes, management of the College does not expect the resolution of these actions to have a material adverse effect on the College's financial position.

(15) Subsequent Events

The College evaluated events subsequent to August 31, 2011 and through December 19, 2011, the date on which the financial statements were issued.