



TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Financial Statements

August 31, 2008 and 2007

(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, 2008 and 2007, and the related statements of changes in unrestricted net assets, changes in net assets, 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 3, 2008

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Balance Sheets

August 31, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 5,172,440	4,412,080
Student accounts and other receivables, net (note 4)	3,417,178	2,597,625
Grants and contracts receivable	5,806,563	3,363,862
Inventories and other assets (note 7)	2,883,202	4,213,145
Contributions receivable (note 5)	9,052,859	9,638,947
Funds held by bond trustees (note 7)	2,404,399	4,986,356
Investments (note 3)	239,533,723	250,342,340
Student loans receivable, net (note 4)	2,987,920	3,173,698
Plant assets, net (note 6)	123,723,862	124,310,365
Total assets	\$ 394,982,146	407,038,418
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,448,777	17,151,249
Deferred revenues	23,811,166	26,122,986
Short-term debt (note 7)	44,575,000	—
Long-term debt (note 7)	37,385,066	84,408,023
Accrued pension and other benefit obligations (note 8)	38,199,742	29,419,499
Other liabilities (notes 2 and 7)	7,109,723	3,473,426
U.S. government grants refundable	2,431,821	2,549,656
Total liabilities	174,961,295	163,124,839
Commitments and contingencies (note 13)		
Net assets (note 9):		
Unrestricted	132,810,809	159,417,813
Temporarily restricted	12,769,700	14,770,327
Permanently restricted	74,440,342	69,725,439
Total net assets	220,020,851	243,913,579
Total liabilities and net assets	\$ 394,982,146	407,038,418

See accompanying notes to financial statements.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Statements of Changes in Unrestricted Net Assets

Years ended August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Student tuition and fees, net (note 10)	\$ 80,781,870	74,511,408
Government appropriations	811,471	846,566
Grants and contracts	40,142,533	34,353,689
Contributions	4,674,584	2,097,651
Investment return used in operations (note 3)	11,433,329	10,825,310
Sales and services of auxiliary enterprises	19,607,126	18,828,519
Other sources	1,956,902	3,670,938
Net assets released from restrictions	2,427,381	3,373,343
Total operating revenues	<u>161,835,196</u>	<u>148,507,424</u>
Operating expenses:		
Instruction	54,988,529	50,768,232
Research, training, and public service	38,176,024	35,893,138
Academic support	14,044,892	13,217,367
Student services	8,275,289	8,148,897
Institutional support (note 11)	27,708,663	21,543,840
Auxiliary enterprises	21,225,193	21,221,257
Total operating expenses	<u>164,418,590</u>	<u>150,792,731</u>
Decrease in unrestricted net assets from operations	(2,583,394)	(2,285,307)
Nonoperating activities:		
(Deficiency) excess of total investment return over amounts used in operations (note 3)	(14,888,345)	21,910,189
Net change in fair value of derivative instruments (note 7)	(3,575,302)	44,737
Investment return on funds held by bond trustees	137,282	308,710
Change in value of split-interest agreements	(27,064)	29,357
Change in additional minimum pension liability (note 8)	—	591,498
Pension and postretirement changes other than net periodic benefit cost (note 8)	(4,953,729)	—
Redesignation of net assets (note 9)	(51,955)	—
Loss on refinancing of debt (note 7)	(1,331,868)	(1,074,465)
Net assets released from restrictions	667,371	1,346,427
(Decrease) increase in unrestricted net assets before effect of adoption of FASB Statement No. 158	<u>(26,607,004)</u>	<u>20,871,146</u>
Effect of adoption of FASB Statement No. 158 (note 8)	—	(10,982,530)
(Decrease) increase in unrestricted net assets	<u>\$ (26,607,004)</u>	<u>9,888,616</u>

See accompanying notes to financial statements.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Statements of Changes in Net Assets

Years ended August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
(Decrease) increase in unrestricted net assets	\$ (26,607,004)	9,888,616
Changes in temporarily restricted net assets:		
Contributions	1,111,080	3,041,714
Change in value of split-interest agreements	(16,955)	460,299
Redesignation of net assets (note 9)	—	(1,000,000)
Net assets released from restrictions	<u>(3,094,752)</u>	<u>(4,719,770)</u>
Decrease in temporarily restricted net assets	<u>(2,000,627)</u>	<u>(2,217,757)</u>
Changes in permanently restricted net assets:		
Contributions	4,899,452	597,438
Change in value of split-interest agreements	(236,504)	(149,932)
Redesignation of net assets (note 9)	<u>51,955</u>	<u>1,000,000</u>
Increase in permanently restricted net assets	<u>4,714,903</u>	<u>1,447,506</u>
(Decrease) increase in net assets	(23,892,728)	9,118,365
Net assets at beginning of year	<u>243,913,579</u>	<u>234,795,214</u>
Net assets at end of year	<u>\$ 220,020,851</u>	<u>243,913,579</u>

See accompanying notes to financial statements.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Statements of Cash Flows

Years ended August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (23,892,728)	9,118,365
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Net depreciation (appreciation) in fair value of investments	7,213,243	(25,152,646)
Net change in fair value of derivative instruments	3,575,302	(44,737)
Depreciation	8,965,958	8,776,235
Amortization of bond issuance costs	78,455	90,201
Contributions restricted for permanent investment	(4,899,452)	(597,438)
Change in value of split-interest agreements	477,050	175,468
Loss on refinancing of debt	1,331,868	1,074,465
Effect of adoption of FASB No. 158	—	10,982,530
Pension and postretirement changes other than net periodic benefit costs	4,953,729	—
Changes in assets and liabilities:		
Student accounts and other receivables	(819,553)	269,703
Grants and contracts receivable	(2,442,701)	(229,993)
Inventories and other assets	(80,380)	(489,708)
Contributions receivable, except for amounts restricted for permanent investment and plant assets	(231,417)	651,645
Accounts payable and accrued expenses and other liabilities	2,455,828	2,574,148
Deferred revenues	(2,338,884)	8,202,820
Accrued pension and other benefit obligations	3,826,514	(84,508)
U.S. government grants refundable	(117,835)	(51,383)
Net cash (used in) provided by operating activities	<u>(1,945,003)</u>	<u>15,265,167</u>
Cash flows from investing activities:		
Loans made to students	(545,536)	(650,812)
Repayments received on student loans receivable and loan cancellations and write-offs of \$346,026 in 2008 and \$160,827 in 2007	731,314	722,316
Purchase of plant assets	(8,379,455)	(7,315,813)
Change in amounts related to plant assets included in accounts payable and accrued expenses	1,902,695	(435,249)
Purchases of investments	(197,741,954)	(91,403,428)
Proceeds from sales of investments	201,171,486	77,295,149
Net cash used in investing activities	<u>(2,861,450)</u>	<u>(21,787,837)</u>
Cash flows from financing activities:		
Contributions restricted for permanent investment	4,899,452	597,438
Decrease in contributions receivable restricted for permanent investment and plant assets	604,553	7,448,804
Proceeds from indebtedness	45,575,000	46,581,250
Repayment of indebtedness	(48,022,957)	(43,291,246)
Decrease (increase) in funds held by bond trustees	2,581,957	(3,898,556)
Investment income on split-interest agreements, net of payments to annuitants	(71,192)	(77,659)
Net cash provided by financing activities	<u>5,566,813</u>	<u>7,360,031</u>
Net increase in cash and cash equivalents	760,360	837,361
Cash and cash equivalents at beginning of year	<u>4,412,080</u>	<u>3,574,719</u>
Cash and cash equivalents at end of year	<u>\$ 5,172,440</u>	<u>4,412,080</u>

See accompanying notes to financial statements.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Notes to Financial Statements

August 31, 2008 and 2007

(1) Nature 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 two subsidiaries whose activities are included in the accompanying financial statements. The first is a Japanese corporation through which the College provides educational programs in Japan. The second, the Doris Dillon Center d/b/a TC Innovations, is a not-for-profit corporation, formed in 2001 to create programs for teachers and principals around the country, the goal of which is to develop new revenue streams for the College, in keeping with the College's mission. The College was founded in 1887 and became part of Columbia University in 1898. Under an arrangement with Columbia University, the faculty of the College was designated a faculty of Columbia University, but retained its legal and financial independence. The College remains a separate corporation. It is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

(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 either by 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.

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(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-free 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, representing 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 (the Dormitory Authority) 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.

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Notes to Financial Statements

August 31, 2008 and 2007

(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 are included in investments. Assets from charitable remainder 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 changes in net assets.

(i) *Derivative Instruments*

The College follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS Nos. 133 and 149 require that all derivative financial instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. The College uses interest-rate-related derivative instruments to manage its exposure on long-term debt (see note 7). The fair value of the derivatives held is based upon values provided by a third-party financial institution.

(j) *Operations*

The accompanying statements of changes in unrestricted net assets distinguish between operating and nonoperating activities. Nonoperating activities principally include: the difference between investment return and the amounts authorized for spending by the College's trustees (see note 3), including investment income held by bond trustees; the gain (loss) on derivative transactions; the loss on debt refinancing (see note 7); the change in pension liability not reported as part of operations (see note 8); and net assets released from restrictions relating to plant activities.

(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. Actual results could differ from those estimates.

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Notes to Financial Statements

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(1) Recent Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 addresses the accounting for uncertainties in income taxes recognized in an organization's financial statements and prescribes a threshold of more-likely than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. There was no material impact to the College's financial statements as a result of the adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. SFAS 157 is effective for reporting periods beginning after November 15, 2007. The impact of adoption of SFAS 157 is currently being evaluated by the College. SFAS 157 will require additional disclosures regarding the inputs used to develop the fair value measurements, and the impacts of certain measurements on the statement of activities.

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds* (FSP), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. New York State has not yet adopted UPMIFA; however, for the year ending August 31, 2009, the College will have to adopt the disclosure requirements of the FSP.

(3) Investments

Money market funds and commercial paper are reported at fair value based upon quoted market prices or values provided by the College's external investment managers if no quoted market prices are available. Investments in limited partnerships and similar interests of approximately \$206.3 million are reflected at fair value as reported by the general partners, which are reviewed by management for reasonableness.

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Notes to Financial Statements

August 31, 2008 and 2007

The following summarizes the composition of investments at fair value at August 31, 2008 and 2007:

	2008	2007
Money market funds and commercial paper	\$ 33,242,172	31,901,527
Equity/equity funds	83,296,869	94,674,133
Fixed income	34,062,094	30,985,786
Mutual funds:		
Equity	910,453	1,055,541
Fixed income	4,301,348	4,128,623
Limited partnerships:		
Public investments	60,673,640	66,616,024
Private investments	23,047,147	20,980,706
	\$ 239,533,723	250,342,340

Equity funds include investment funds whose underlying investments are publicly traded equities.

Limited partnerships – public investments include interests in limited partnerships and limited liability corporations that invest in public entities and corporate bonds and may employ both long and short strategies. These interests have varying degrees of liquidity, generally ranging from 30 days to 1 year.

Limited partnerships – private investments include interests in limited partnerships and limited liability corporations that invest in venture capital, private equity, and real estate. These interests generally have very limited liquidity. 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, 2008, the College had commitments of approximately \$17.0 million, for which capital calls had not been exercised. Such commitments, generally, have fixed expiration dates or other termination clauses. The College maintains sufficient liquidity in its investment portfolio to cover such calls.

The College maintains a liquidity level which it believes is well in excess of short term cash needs. At August 31, 2008, approximately \$103 million or 43% of the investment portfolio provided daily liquidity with an additional \$45.4 million or 19% providing at least quarterly liquidity.

The College invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Investments include \$1,863,923 and \$1,938,976 of assets relating to split-interest agreements in 2008 and 2007, respectively.

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Notes to Financial Statements

August 31, 2008 and 2007

The College maintains an investment pool for certain long-term investments, which had a fair value of \$209,178,255 and \$219,821,326 at August 31, 2008 and 2007, respectively. The investment pool is managed to achieve a prudent long-term total return. The College's trustees established a policy designed to preserve the value of these investments in real terms (after inflation) and provide a predictable flow of funds to support operations. This policy permits the use of total return (dividend and interest income and investment gains) at a level (the spending rate) of 5% annually of the 16-quarter moving average fair value of the investment pool. In accordance with the spending rate, \$9,539,613 and \$9,192,876 of investment return on pooled assets was made available in 2008 and 2007, respectively, to support the operations of the College. In addition, \$769,481 was withdrawn from the endowment to fund Board of Trustee authorized programs. The College also used \$1,124,235 in 2008 and \$1,632,434 in 2007 of investment income earned on short-term and other nonpooled investments to support operations.

The following summarizes the College's total return on investments and its classification in the financial statements for the years ended August 31, 2008 and 2007:

	2008	2007
Dividends and interest	\$ 5,894,743	12,298,213
Net (depreciation) appreciation in fair value of investments	(7,213,243)	25,152,646
Investment fees and expenses	(2,136,516)	(4,715,360)
Total return on investments	(3,455,016)	32,735,499
Investment return used in operations	11,433,329	10,825,310
(Deficiency) excess of total investment return over amounts used in operations	\$ (14,888,345)	21,910,189

(4) Allowance for Uncollectible Accounts and Loans Receivable

Student accounts and other receivables are reported net of an allowance for uncollectible amounts of \$837,000 and \$706,000 at August 31, 2008 and 2007, respectively.

Student loans receivable are reported net of an allowance for uncollectible amounts of \$1,740,000 and \$1,844,000 at August 31, 2008 and 2007, respectively.

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Notes to Financial Statements

August 31, 2008 and 2007

(5) Contributions Receivable

Contributions receivable consist of the following at August 31, 2008 and 2007:

	2008	2007
Amounts receivable from charitable remainder trusts	\$ 377,582	426,287
Beneficial interest in perpetual trusts	931,434	1,095,296
Amounts receivable from charitable lead trust	269,969	290,217
Amounts expected to be collected in:		
Less than one year	5,065,330	4,080,753
One to five years	2,870,207	3,975,402
More than five years	67,948	889,818
	9,582,470	10,757,773
Less discount to present value (at discount rates ranging from 3.1% to 6.0%)	(507,611)	(883,826)
Less allowance for uncollectible amounts	(22,000)	(235,000)
	\$ 9,052,859	9,638,947

(6) Plant Assets

Plant assets consist of the following at August 31, 2008 and 2007:

	2008	2007
Land	\$ 642,443	642,443
Buildings and improvements	79,617,370	73,616,188
Furniture and equipment	28,398,380	26,259,336
Under capital lease with the Dormitory Authority and other lenders:		
Land	50,000	50,000
Buildings and improvements	104,429,917	102,827,118
Furniture and equipment	10,549,313	10,105,218
	223,687,423	213,500,303
Less accumulated depreciation	(103,052,714)	(94,086,756)
Construction in progress	3,089,153	4,896,818
	\$ 123,723,862	124,310,365

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August 31, 2008 and 2007

(7) Short-Term Debt, Long-Term Debt, and Derivative Instruments

Short-term and long-term debt at August 31, 2008 and 2007 consist of the following:

	2008	2007
Long-term debt:		
Dormitory Authority of the State of New York (DASNY):		
Series 2002 Insured Revenue Bonds (a)	\$ 36,305,000	37,325,000
Series 2007 Insured Revenue Bonds (b)	—	45,575,000
Leases with DASNY:		
Piano lease with Banc of America as lessor, the Dormitory Authority as lessee, and the College as sublessee (c)	87,112	137,095
Equipment lease with Chase Equipment Leasing, Inc., as lessor, the Dormitory Authority as lessee, and the College as sublessee (d)	992,954	1,370,928
	37,385,066	84,408,023
Bridge loan facility with JPMorgan Chase, NA (b)	44,575,000	—
Total debt outstanding	\$ 81,960,066	84,408,023

(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 3.000% 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 payment of all liabilities and 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, 2008 and 2007, the unexpended construction fund proceeds were \$0 and \$728,656, respectively.

At August 31, 2008 and 2007, the College had unamortized bond issuance costs of \$1,016,492 and \$1,058,933, respectively, relating to the Series 2002 bond issue, which have been deferred and are being amortized over the life of the Series 2002 Bonds.

(b) In February 2007, DASNY issued Insured Revenue Bonds, Series 2007 (Series 2007 Bonds) in the amount of \$45,950,000 on behalf of the College. In May 2008, the College entered into a \$45,575,000 Bridge Loan Facility agreement (the Facility) with JPMorgan Chase Bank, N.A. to provide funds necessary to purchase the outstanding Series 2007 Bonds in lieu of redemption. The \$1,331,868 loss recognized on the purchase of the Series 2007 Bonds is reported as a nonoperating charge in the accompanying 2008 statement of changes in unrestricted net assets.

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August 31, 2008 and 2007

The Facility is required to be repaid in full upon the reissuance of Series 2007 Bonds, refinancing of the Series 2007 Bonds, or within 270 days. Interest rate on the Facility is determined monthly at LIBOR plus 95 basis points per annum. For the year ended August 31, 2008, the rates paid on the Facility ranged from 3.40% to 3.65%.

The College used the proceeds from the Series 2007 Bonds to refinance the Series 2003 Bonds and finance improvements and renovations. At August 31, 2008 and 2007, the College had unexpended funds of \$2,134,243 and \$3,118,143, respectively, relating to the Series 2007 Bonds issue. In 2008 and 2007, such funds were invested in cash and short-term government securities.

In August 2003, the College issued general obligation bonds, Taxable Series 2003 (Series 2003 Bonds) in the amount of \$41,500,000 to finance the construction of a student residence hall and to cover the payment of the portion of interest accruing on the bonds for the first year the bonds were outstanding. The College refinanced the Series 2003 Bonds with the Series 2007 Bonds. The \$1,074,465 loss on refinancing is reported as a nonoperating charge in the accompanying 2007 statement of changes in unrestricted net assets.

In August 2003, the College entered into a floating-to-fixed-rate swap agreement (the Agreement) as a hedge on its Series 2003 Bonds, which carried over to the Series 2007 Bonds. Under the Agreement, the College receives the one-month London InterBank Offered Rate (LIBOR) (2.47% and 5.50% at August 31, 2008 and 2007, respectively) and pays a fixed rate of 5.845% on the notional amount of the Series 2007 Bonds through June 22, 2033. The College has the option to terminate the Agreement at its discretion. A payment will either be received or paid by the College depending on the interest rate environment at the time of termination. The fair values of the Agreement on the Series 2007 \$45,950,000 notional amount were \$(5,828,821) and \$(2,253,519) at August 31, 2008 and 2007, respectively, which are included in other liabilities in the accompanying balance sheets.

- (c) During 2003, the College entered into a master lease and sublease agreement with Banc of America as lessor, the Dormitory Authority as lessee, and the College as sublessee to finance the purchase of several pianos. The loan obligation under the lease is payable in monthly installments through May 2010 and bears interest at a rate of 3.35%.
- (d) On September 27, 2006, the College entered into a master lease and sublease agreement with Chase Equipment Leasing, Inc. as lessor, the Dormitory Authority as lessee, and the College as sublessee to finance various equipment purchases for \$1,706,000. The loan obligation under the lease is payable in monthly installments through September 2013 and bears interest at rates ranging from 3.55% to 3.59%. At August 31, 2008 and 2007, unexpended equipment purchases were \$270,156 and \$1,139,557, respectively.

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Notes to Financial Statements

August 31, 2008 and 2007

The minimum annual payments for principal are as follows:

Year ending August 31:	
2009	\$ 46,073,433
2010	1,546,455
2011	1,231,794
2012	1,248,381
2013	1,300,307
Thereafter	<u>30,559,696</u>
	<u>\$ 81,960,066</u>

Interest expense, including net swap payments, was approximately \$4.8 million and \$4.1 million in 2008 and 2007, respectively.

(8) Benefit Plans

Pension and Postretirement Benefits

The College has a noncontributory defined benefit 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.

The College also has a contributory defined contribution plan covering academic and professional employees. Total expense recognized under this plan for the years ended August 31, 2008 and 2007 was approximately \$5,866,000 and \$5,600,000, respectively.

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Notes to Financial Statements

August 31, 2008 and 2007

In the fiscal year ended August 31, 2007, the College adopted FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans* (FAS 158), resulting in an increase in accrued benefits liability of \$10,982,530. Adjustments in subsequent years will be recorded as pension and postretirement changes other than net periodic benefit cost in the statements of changes in unrestricted net assets.

The following tables provide information with respect to the pension and postretirement benefit plan at August 31, 2008 and 2007 (rounded to 000s):

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 32,864,000	31,550,000	25,522,000	12,907,000
Service cost	1,127,000	1,075,000	1,158,000	1,010,000
Interest cost	2,028,000	1,898,000	2,073,000	1,463,000
Actuarial (gain) loss	(2,005,000)	(47,000)	4,266,000	5,424,000
Plan amendments	—	—	—	5,334,000
Benefits paid	(1,731,000)	(1,612,000)	(626,000)	(616,000)
Benefit obligation at end of year	32,283,000	32,864,000	32,393,000	25,522,000
Change in plan assets:				
Fair value of plan assets at beginning of year	28,966,000	24,083,000	—	—
Actual return on plan assets	(1,742,000)	3,325,000	—	—
Employer contribution	1,000,000	3,221,000	626,000	616,000
Benefits paid	(1,748,000)	(1,445,000)	(626,000)	(616,000)
Expenses	—	(218,000)	—	—
Fair value of plan assets at end of year	26,476,000	28,966,000	—	—
Funded status, recognized in the balance sheets	\$ (5,807,000)	(3,898,000)	(32,393,000)	(25,522,000)

Accumulated amounts recorded in unrestricted net assets other than through net periodic benefit cost at August 31, 2008 and 2007 consist of:

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Prior service cost	\$ —	—	(1,787,000)	(1,977,000)
Net actuarial loss	(4,778,000)	(2,778,000)	(9,774,000)	(6,630,000)
	\$ (4,778,000)	(2,778,000)	(11,561,000)	(8,607,000)

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Notes to Financial Statements

August 31, 2008 and 2007

The estimated net loss for the pension plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal 2009 is \$145,251. The estimated net loss and prior service cost for the postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal 2009 are \$640,171 and \$189,736, respectively.

The following provides the actuarial assumptions:

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Weighted average assumptions used to determine benefit obligations:				
Discount rate	7.00%	6.25%	7.00%	6.25%
Rate of compensation increase	4.50	4.50	—	—
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	6.25	6.00	6.25	6.00
Expected return on plan assets	8.00	8.00	—	—
Rate of compensation increase	4.50	4.50	—	—

For measurement purposes, the annual rate increase in the per capita cost of covered healthcare benefits assumed for 2008 and thereafter is as follows:

	Medical >65 years
2008	9.50%
Thereafter	Decreasing by 0.50% per year to a rate of 5.00% in 2017 and thereafter

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Notes to Financial Statements

August 31, 2008 and 2007

The following provides the components of net periodic benefit cost recognized in the accompanying statements of changes in unrestricted net assets:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Components of net periodic benefit cost:				
Service cost	\$ 1,127,000	1,075,000	\$ 1,158,000	1,010,000
Interest cost	2,028,000	1,898,000	2,073,000	1,463,000
Expected return on plan assets	(2,260,000)	(1,992,000)	—	—
Amortization of prior service cost	—	—	190,000	190,000
Loss recognized	16,000	184,000	1,122,000	517,000
Net periodic benefit cost	<u>\$ 911,000</u>	<u>1,165,000</u>	<u>\$ 4,543,000</u>	<u>3,180,000</u>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets at August 31, 2008 are as follows:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>
	<u>2008</u>	<u>2008</u>
Pension and postretirement changes other than net periodic benefit cost:		
Net loss	\$ 2,015,000	4,266,000
Amortization of prior service cost	—	(190,000)
Amortization of net loss	(16,000)	(1,122,000)
Total amount recognized in unrestricted net assets	<u>\$ 1,999,000</u>	<u>2,954,000</u>

The accumulated benefit obligation for the pension plan at August 31, 2008 and 2007 was \$29,249,000 and \$29,369,000, respectively.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Notes to Financial Statements

August 31, 2008 and 2007

The asset allocation of the pension benefit plan as of August 31 is as follows:

	2008	2007
Asset category:		
Equity securities	60.79%	62.17%
Fixed income securities	32.16	31.60
Real estate	5.45	6.12
Cash and short-term	1.60	0.11
	100.00%	100.00%

The expected long-term rate of return on assets assumption is 8%. The assumption has been determined by reflecting 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 College expects to contribute approximately \$1,500,000 to the pension plan in 2009. 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:

2009	\$ 2,034,000
2010	2,107,600
2011	2,165,200
2012	2,243,100
2013	2,284,600
2014 – 2018	12,335,000

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 accumulated postretirement benefit obligation was \$37,208,000 at August 31, 2008, net of Medicare prescription drug benefit of \$4,816,000.

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Notes to Financial Statements

August 31, 2008 and 2007

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	
	<hr/>	
2009	\$	1,253,000
2010		1,410,000
2011		1,548,000
2012		1,731,000
2013		1,870,000
2014 – 2018		11,783,000

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
		<hr/>	<hr/>
Impact of 1% change in healthcare cost trend rates:			
Effect on total service and interest cost components	\$	599,000	(481,000)
Effect on postretirement benefit obligation		4,868,000	(4,022,000)

(9) Net Assets

Certain unrestricted net assets are designated for specific purposes or uses under various internal operating and administrative arrangements of the College. As a result, substantially all of the net assets classified as unrestricted in the accompanying balance sheets at August 31, 2008 and 2007 have been designated for long-term investment or are invested in plant.

Unrestricted net assets consist of the following at August 31, 2008 and 2007:

		2008	2007
		<hr/>	<hr/>
Funds designated for long-term investment	\$	70,411,191	93,400,801
Net investment in plant		45,184,687	47,312,391
Operating and other		17,214,931	18,704,621
	\$	<hr/> <hr/>	<hr/> <hr/>
		132,810,809	159,417,813

Temporarily restricted net assets at August 31, 2008 and 2007 are principally restricted for program support or are time restricted under split-interest agreements.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Notes to Financial Statements

August 31, 2008 and 2007

Permanently restricted net assets at August 31, 2008 and 2007 are restricted to investment in perpetuity, with investment return principally available to support research and experimentation, student aid, and professorships.

During fiscal years 2008 and 2007, certain previously recorded contributions were reclassified to other net asset classifications based on changes in donors' designations.

(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 \$15,953,448 and \$14,829,545 in fiscal years 2008 and 2007, respectively.

(11) Fund-Raising Expenses

Fund-raising expenses are included in institutional support in the accompanying statements of changes in unrestricted net assets. For the years ended August 31, 2008 and 2007, fund-raising costs incurred by the College's development office amounted to approximately \$3,577,000 and \$3,614,000, respectively.

(12) Fair Value of Financial Instruments

The carrying amount of financial instruments, except as follows, approximates fair value due to the short-term maturity of these instruments. The fair value of investments, contributions receivable, and funds held by bond trustees is discussed in notes 3, 5, and 7, respectively.

Management estimates that the carrying value of the College's long-term debt is not materially different from its fair value because the bonds bear interest at rates that are not significantly different from current market rates for loans with similar maturities and credit quality.

A reasonable estimate of the fair value of loans receivable from students under government loan programs could not be made because the notes are not saleable and can only be assigned to the U.S. Government or its designees.

(13) 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.

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

Notes to Financial Statements

August 31, 2008 and 2007

(b) Operating Leases

The College has operating leases for building space and certain furnishings through August 2013. Minimum future rental payments under these leases are as follows:

Year ending August 31:	
2009	\$ 1,299,297
2010	468,307
2011	374,852
2012	384,223
2013	32,819
	<hr/>
	\$ 2,559,498
	<hr/> <hr/>

Total rent expense for the years ended August 31, 2008 and 2007 amounted to approximately \$1,190,000 and \$1,192,000, respectively.

(c) Line of Credit

The College has a revolving credit arrangement with a bank that provides for a line of credit up to \$10,000,000, of which none was outstanding at August 31, 2008 and 2007. Borrowings under the line of credit will bear interest at the following options: (a) floating rate option equal to the higher of (1) the bank's prime rate less 1.00% or (2) the Federal funds effective rate plus 0.50%; (b) for loans of \$500,000 or more, a fixed rate option equal to the JPMorgan Chase bank money rate; or (c) for loans of \$500,000 or more, a fixed rate option equal to LIBOR plus 1.25%. All loans under the line of credit are subject to the requirement that for 30 consecutive days prior to its expiration on April 30, 2009, there shall be no loans outstanding. On October 2, 2008, the College drew \$10,000,000 from this line as a precautionary measure when its investment in the CommonFund Short-Term Fund became illiquid all of which has been repaid as of November 25, 2008 (see note 14).

(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.

(14) Subsequent Events

On September 29, 2008, the College was notified that Wachovia Bank, N.A., as trustee of the CommonFund Short Term Fund (The Fund), was resigning as trustee, and initiated the process of terminating the Fund, and had established procedures for an orderly liquidation and distribution of the assets of the Fund over a period of time. As permitted, the College has already withdrawn \$26.1 million through November 24, 2008. At August 31, 2008 and September 29, 2008, the College had \$20.4 million and \$40.1 million, respectively, invested in the Fund. The College's position in the Fund will not affect its financial obligations for it believes it has ample resources to meet all near and long-term obligations.