

THE CITY UNIVERSITY OF NEW YORK

Basic Financial Statements and
Supplementary Schedules and
Management's Discussion and Analysis

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

THE CITY UNIVERSITY OF NEW YORK

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Management's Discussion and Analysis

June 30, 2006 and 2005

INTRODUCTION

The intent of Management's Discussion and Analysis (MD&A) is to provide readers with an overview of the financial position of The City University of New York (the "University" or "CUNY") for the years ended June 30, 2006 and 2005.

The MD&A is designed to focus on current activities, resulting changes, and currently known facts with respect to the University's financial position. It should be read in conjunction with the accompanying basic financial statements and related footnotes.

For financial reporting purposes, the University's reporting entity consists of 13 senior colleges, including a Graduate School and Law School, and 6 community colleges. The University's financial statements also include the financial activity of the following other related organizations: the Research Foundation of the City University of New York (RF-CUNY), which includes the activity of a new entity in fiscal year 2005, the 230 West 41st Street LLC, the City University Construction Fund (CUCF), auxiliary enterprise corporations and boards, college associations, child care centers of the individual colleges and other entities deemed includable in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity."

The University also includes 18 college foundations as part of its reporting entity. These fundraising organizations follow the Financial Accounting Standards Board (FASB) standards. The financial activities of these organizations are maintained in their original FASB format and are not included in the discussion presented below. The basis for determining which University related organizations are considered to be part of the University's reporting entity is included in Note 1 of the financial statements.

FINANCIAL HIGHLIGHTS (COMPARISON OF FISCAL YEARS 2006 AND 2005)

- The University's total net assets increased by \$79.8 million to \$454.3 million, between fiscal years 2005 and 2006, primarily due to increases in tuition and fee revenue, gifts and grants, investment income, and proceeds from the issuance of new debt.
- The University reached a collective bargaining agreement with its faculty union, the Professional Staff Congress (PSC) during fiscal 2006. The agreement covers the period November 1, 2002 through September 19, 2007, and provides wage increases worth, on average, 9.5% over the duration of the contract. The University established an accrual related to the contract which contributed to increases in appropriations revenue, operating expenses, receivables and accrued expenses in the accompanying financial statements.
- The University initiated the financing of a multi-year Senior College Investment program. In year one of the program, 2006, an investment of \$5 million was made and was focused on improvements in graduate education. The objective of this initiative was for graduate students to experience a demonstrable change in services at all levels of the integrated University.

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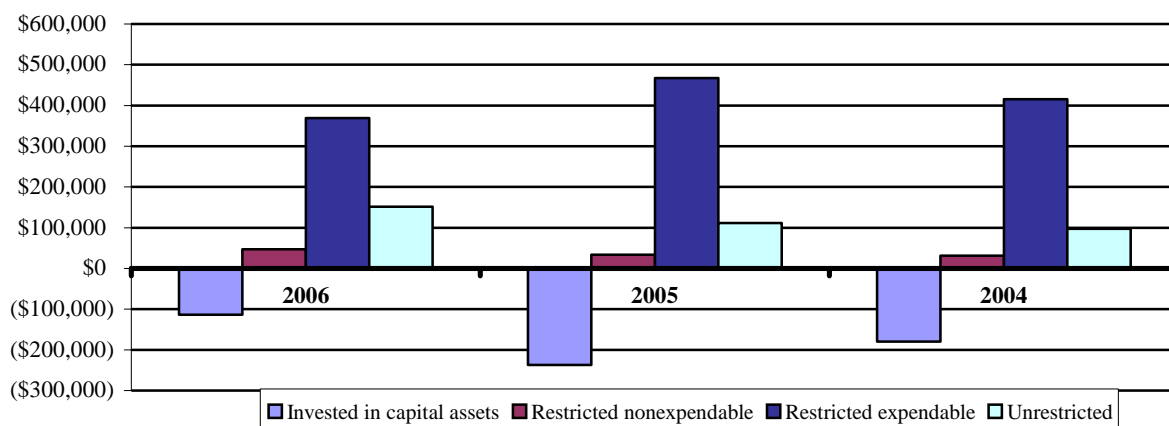
FINANCIAL POSITION

An institution's net assets (assets minus liabilities) are one measure of financial health or financial position. Increases and decreases in the University's net assets over time are indicators of whether its financial health is sound or not.

CUNY's total net assets increased by \$79.8 million to \$454.3 million between fiscal years 2005 and 2006. This variance was primarily due to increases in unrestricted net assets and invested in capital assets, net of related debt, offset by a decrease in restricted expendable net assets. The \$40.7 million increase in unrestricted net assets was due to increases in tuition and fee revenue, investment income, and gifts and grants revenue, while the invested in capital assets increase of \$123.9 million was primarily due to debt service payments of \$206 million and capital asset additions, offset by depreciation and amortization expense. The decrease in restricted expendable of \$98.5 million was primarily due to the early payment of principal and interest on the University's bonds.

The University's net assets increased by \$10.6 million to \$374.5 million between fiscal years 2004 and 2005. The majority of the increase was due to the inclusion of the 230 West 41st Street LLC as part of the RF-CUNY entity, which added \$12.3 million to the net assets of the University.

Net Assets
(in thousands)



(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ (113,632)	(237,540)	(179,988)
Restricted nonexpendable	47,297	33,569	31,470
Restricted expendable	368,836	467,370	415,159
Unrestricted	151,800	111,137	97,306
Total net assets	<u>\$ 454,301</u>	<u>374,536</u>	<u>363,947</u>

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Several non-financial factors are also relevant to the University's financial health. These include changes in the number and quality of its applicants, size of the first-year class, the number of full-time faculty, student retention, graduation rates, building conditions, and campus safety. For example, an increase in the size of the first year class would result in an increase of tuition and fees revenues. It is important to note there are no known unfavorable changes in the aforementioned factors.

ASSETS

At June 30, 2006, the University's total assets increased by \$230.7 million, or 5%, from the prior year. This variance was primarily attributable to increases in deposits held by bond trustees, investments, receivables and cash and cash equivalents.

At June 30, 2005, the University's total assets increased by less than 1%. The variance was attributable to increases in cash and cash equivalents, receivables, prepaid expenses and other assets, and capital assets, offset by decreases in investments and deposits held by bond trustees.

The major components of the University's assets at June 30, 2006, 2005 and 2004 follow:

(in thousands)	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets			
Cash and cash equivalents	\$ 327,602	298,196	281,690
Investments	313,960	231,800	252,443
Receivables, net	348,977	314,945	257,242
Deposits held by bond trustees	726,451	630,904	781,609
Amounts held by DASNY	16,397	24,511	31,313
Deferred financing costs	43,035	41,200	34,488
Prepaid expenses and other assets	27,383	24,953	12,496
Capital assets, net	2,952,456	2,959,007	2,867,512
	<u>\$ 4,756,261</u>	<u>4,525,516</u>	<u>4,518,793</u>

Cash and Cash Equivalents increased by \$29.4 million, or 10%, between fiscal years 2005 and 2006, and by \$16.5 million, or 6%, between fiscal years 2004 and 2005. The fiscal year 2006 variance was primarily due to an additional \$31 million in tuition and fee cash held by the University at June 30, 2006. These funds represent collections above the base revenue targets of the senior colleges and will be used to pay their current and future year liabilities.

The fiscal year 2005 variance was primarily due to the following two items: (i) \$12 million received by the University on June 30, 2005 from the Higher Education Services Corporation (HESC) for the Tuition Assistance Program (TAP) related to the summer and spring semesters. Due to the timing of the receipt of these funds, they were not transferred out to CUCF and/or the City University Tuition Reimbursable Account (CUTRA) until fiscal year 2006; and (ii) the addition of \$3.2 million of cash held by the 230 West 41st Street LLC.

Investments at June 30, 2006 increased by \$82.2 million, or 35%, whereas, investments at June 30, 2005 decreased by almost \$20.6 million, or 8%. Approximately \$149 million, or 47%, of the University's investments are held within a managed investment pool. These funds are invested in various fixed and

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equity investment vehicles. Several investment advisory firms are used to assist the University's Board of Trustees in its portfolio management.

The variance between fiscal years 2005 and 2006 was primarily due to the following increases: (i) \$29.8 million in short-term investments at CUCF; (ii) \$14.9 million in the intermediate common fund; (iii) \$11.6 million at the City College 21st Century Fund; (iv) \$18.8 million in the market value of the University's investment pool; and (v) \$4.8 million in short-term investments at RF-CUNY.

The majority of the variance between fiscal years 2004 and 2005 was due to a \$74 million decrease in investments at CUCF offset by the following three items: (i) an increase in short-term investments of \$5.2 million at RF-CUNY; (ii) increases in short-term and long-term investments at the City College 21st Century Fund of \$3.2 million and \$5.5 million, respectively; and (iii) an increase of \$3.5 million in the market value of the University's investment pool. The latter variance was due to improved market performance in small cap and international equities.

Receivables, net includes amounts due to the University for grants and contracts (federal, state, city and private), state and city appropriations, interest, student accounts, loans, and other operating receivables, offset by the allowance for doubtful accounts and loans of \$44.7 million and \$42.8 million in fiscal years 2006 and 2005, respectively. The fiscal year 2006 receivable balance increased by \$34 million, or 11%, over the prior year. This variance can be attributed to an increase in appropriations receivables, offset by decreases in receivables related to students and financial aid and other. Appropriations receivable increased by \$73.7 million; the majority of this variance was due to an increase in receivables from the City and State of New York for payroll and fringe benefits related to the PSC collective bargaining contract of \$95.5 million, offset by a decrease in funds for the District Council (DC) 37 collective bargaining agreement of \$27.2 million which was established as a prior year receivable.

Accounts and financial aid receivables decreased by \$13.5 million from the prior year primarily as a result of the timing of TAP payments from HESC. In fiscal 2005, HESC made a large payment of TAP related to the spring semester, after June 30, 2005. In the current year, HESC made the majority of its payments to CUNY by June 30, 2006. Consequently, the receivable from HESC decreased by \$14.6 million between fiscal years 2005 and 2006. The decrease in other receivables of \$19.7 million was primarily due to the fiscal 2006 collection of the \$16.7 million due from DASNY at June 30, 2005.

The fiscal year 2005 receivables balance increased by \$57.7 million, or 22%, from 2004. A large portion of this variance can be attributable to the \$40 million increase in amounts due from the State and City related to operating appropriations. \$27.2 million of this increase was due to the establishment of a receivable related to payroll and fringe benefits under the DC37 collective bargaining agreement. The terms of the contract were settled during fiscal year 2005; however, amounts will not be paid until early fiscal year 2006. The remaining \$13.2 million was due to timing of payments to vendors. Additionally, other receivables increased by \$17.9 million due to the establishment of a receivable of \$16.7 million from DASNY.

Deposits Held by Bond Trustees includes bond proceeds not yet expended for construction projects and debt service and related accumulated investment income. Bond proceeds and interest income in excess of construction costs are restricted for future projects and debt service. These funds are invested in highly liquid assets, such as treasury bills. The balance increased by \$95.5 million between fiscal years 2005 and 2006; whereas, it decreased by \$150.7 million between fiscal years 2004 and 2005. The current year variance was due to new bonds issued having a par value of \$322 million and original issue premium of

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\$12.5 million, offset by payments for construction and debt service; while the prior year decrease was due to payments for debt service and construction costs, which exceeded annual additions to the fund.

Amounts Held by DASNY represents funds remitted to DASNY to be used for the rehabilitation of existing plant facilities and administrative costs. The balance decreased by \$8.1 million, or 33%, between fiscal years 2005 and 2006, and by \$6.8 million, or 22%, between fiscal years 2004 and 2005. The decrease in both fiscal years was due to these funds being used to rehabilitate existing facilities and to pay for increases in administrative costs.

Deferred Financing Costs represent costs incurred for the issuance of bonds that are capitalized and amortized over the life of the related debt. At June 30, 2006, 88% of these costs were for bonds issued for the senior colleges, while the remaining 12% were for community colleges. The 2006 deferred financing cost balance remained consistent with the prior year.

The fiscal year 2005 increase of approximately \$6.7 million, or 19%, was due to the addition of costs associated with the new bonds issued during the year, which increased the balance by \$9.2 million, offset by amortization of deferred financing costs of \$2.5 million.

Prepaid Expenses and Other Assets increased by \$2.4 million, or 10%, between fiscal years 2005 and 2006, and by \$12.5 million, or 100%, between fiscal years 2004 and 2005. The fiscal year 2006 variance was due to the following: (i) an increase of \$6.6 million related to the prepayment of funds to the Governor's Island Preservation and Education Corporation for design and construction management at Governor's Island; and (ii) a decrease of \$4.5 million in other assets at RF-CUNY due to a reduction of restricted cash of approximately \$2 million, coupled with a decrease in the value of in place leases of approximately \$2 million.

The fiscal year 2005 variance was primarily due to the first time inclusion of the activities of the 230 West 41st Street LLC, which contributed \$18.7 million to the variance and included the following: (i) \$1.7 million related to deferred costs; (ii) \$5.9 million for the value of in-place leases; (iii) \$3.2 million for above market leases; and (iv) \$7.9 million of restricted cash. This increase was offset by various decreases at the colleges' non-tax levy entities.

Capital Assets, net includes land, land improvements, building, building improvements, construction in progress, infrastructure, infrastructure improvements, artwork and historical treasures, and equipment, reduced by related depreciation. The 2006 capital asset balance of \$2.952 billion remained consistent with the prior year with a less than 1% increase. The fiscal year 2005 increase of \$91.5 million, or 3%, was due to the acquisition of RF-CUNY's new headquarters for \$51.9 million, ongoing construction costs capitalized during the year totaling \$143.3 million and \$39.2 million of new equipment purchases. These and other increases were partially offset by depreciation expense of \$154.3 million.

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LIABILITIES

At June 30, 2006, the University's total liabilities increased by \$150.9 million, or 4%, from the prior year. The variance was primarily due to increases in long-term debt, accounts payable and accrued expenses and other liabilities, offset by a decrease in accrued interest payable.

At June 30, 2005, the University's total liabilities decreased by \$3.9 million, or less than 1 percent. This variance was due to decreases in accounts payable and accrued expenses and long-term debt, offset by increases in accrued interest payable, other liabilities and deferred grant revenue.

The following summarizes the liabilities at June 30, 2006, 2005 and 2004:

(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Liabilities			
Accounts payable and accrued expenses	\$ 366,870	320,123	332,578
Deferred tuition and fees revenue	56,003	54,048	46,774
Compensated absences	103,327	100,276	95,816
Long-term debt	3,549,403	3,415,425	3,459,495
Deferred grant revenue	63,392	68,031	55,296
Federal refundable loans	44,945	46,265	45,958
Accrued interest payable	47,951	93,866	75,940
Other liabilities	70,069	52,946	42,989
Total liabilities	<u>\$ 4,301,960</u>	<u>4,150,980</u>	<u>4,154,846</u>

Accounts Payable and Accrued Expenses increased by \$46.7 million, or 15%, between fiscal years 2005 and 2006. \$73.7 million of this increase was related to payroll and fringe benefits for the PSC collective bargaining contract as described above in the receivables section. This increase was offset by the following decreases: (i) \$16.7 million related to amounts received from DASNY and used to pay fiscal 2005 obligations; (ii) \$4.4 million at CUCF; and (iii) \$7.8 million related to the early retirement accrual; the last payment occurred in 2006.

The accounts payable and accrued expenses balance decreased by \$12.4 million, or 4%, between fiscal years 2004 and 2005. The majority of this decrease was due to the following: (i) a \$16.4 million reduction in amounts due for capital projects; (ii) a \$50.3 million decrease in amounts due to NYS, which resulted from the processing of more payment vouchers before June 30, 2005; (iii) a reduction of \$8.6 million in the University's early retirement accrual due to payments made during the year, offset by; (iv) an increase of \$19.7 million in amounts due to the City; (v) an increase in liabilities of \$27.2 million related to collective bargaining; and (vi) a \$12.8 million increase in payables due to the timing of bills received and payments made for payroll and other than personal services (OTPS) costs.

Deferred Tuition and Fees Revenue comprises tuition and fee payments made by students prior to June 30th but which are intended for the following summer and/or fall semester. The June 30, 2006 balance of \$56 million remained consistent with the prior year with a \$2 million, or 4%, increase.

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The fiscal year 2005 balance increased by \$7.3 million, or 16%, due to the timing of due dates on student bills and additional cash collected prior to June 30, 2005. The majority of the variance was due to an increase of \$4 million in deferred tuition and fee revenue at Hunter College.

Long-Term Debt increased by \$134 million, or 4%, from the prior year due to the issuance of new bonds with a par value of \$322 million and original issue premium of \$12.5 million, offset by payments of outstanding debt and amortization of bond premiums and discounts.

Long-term debt decreased by \$44 million, or 1%, between fiscal years 2004 and 2005 and was primarily due to the University making \$107.7 million in bond payments and refunding existing debt in the amount of \$461 million, offset by the issuance of new debt and the amortization of bond premiums and discounts.

Deferred Grant Revenue decreased by \$4.6 million, or 7%, between fiscal years 2005 and 2006, whereas, the balance increased by \$12.7 million, or 23%, between fiscal years 2004 to 2005. These variances are a result of changes in the timing of the receipt of payments from governmental and private sponsors to the Research Foundation.

Accrued Interest Payable decreased by \$45.9 million, or 49%, between fiscal years 2006 and 2005 due to early payment of interest in fiscal year 2006. Between fiscal years 2004 and 2005, the balance increased by \$17.9 million, or 24%, due to early payments in 2004 and an increase in interest related to the University's swap agreements.

Other Liabilities includes both current and non-current other liabilities, deposits held in custody for others and collateral held for securities lending. The 2006 balance increased by \$17 million, or 32%, from the prior year and was primarily due to the following: (i) \$4.5 million increase in funds appropriated by and received from New York City related to the "Training for Long-term Unemployment" initiative - this money will be expended once contract terms have been settled; and (ii) \$8.7 million increase in collateral held for securities lending.

Other liabilities increased by approximately \$10 million, or 23%, between fiscal years 2004 to 2005. The majority of the variance was due to a \$10 million increase in deposits held in custody for others, which represents funds appropriated by and received from New York City for the aforementioned "Training for Long-term Unemployment" initiative.

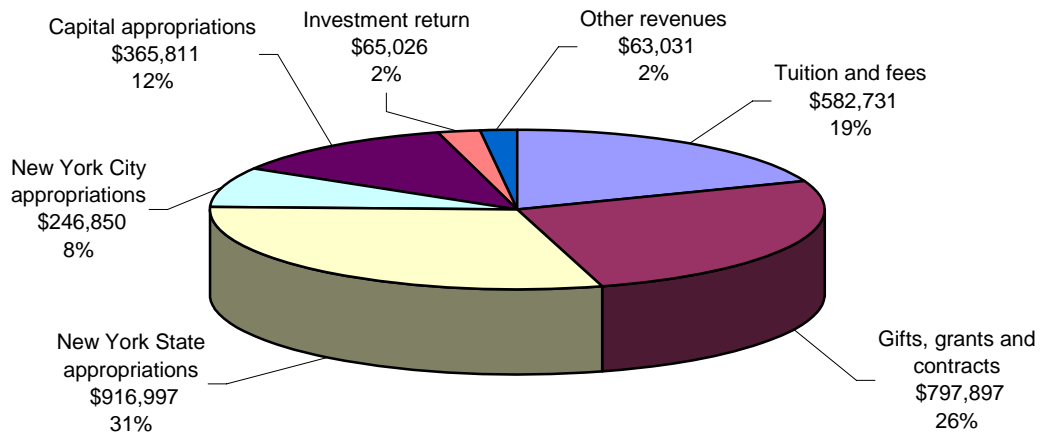
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

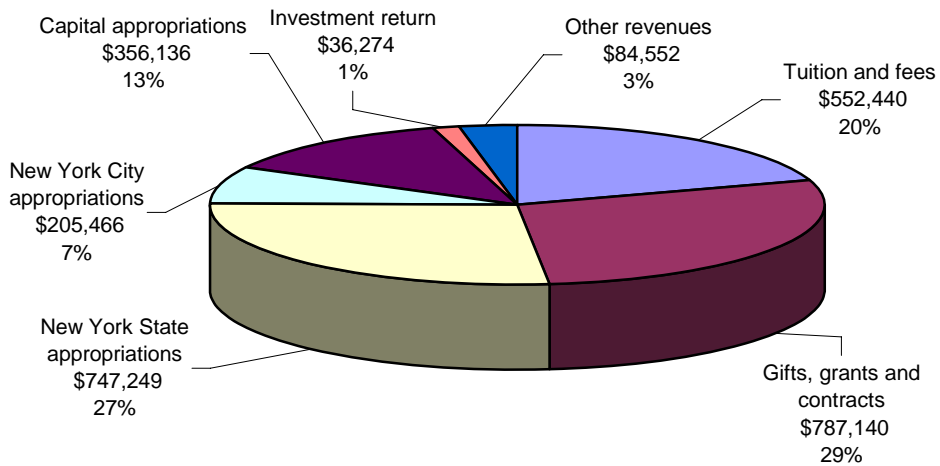
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the University, as well as non-operating revenues and expenses. New York State and City appropriations, while budgeted for operating activities, are presented as non-operating revenues as prescribed by GASB. The major components of revenues are presented below:

REVENUES

2006 Revenues



2005 Revenues



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(in thousands)	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues			
Tuition and fees, net	\$ 582,731	552,440	520,665
Grants and contracts	775,530	780,038	775,559
Auxiliary enterprises	20,159	19,650	17,923
Other operating revenues	47,770	62,381	49,136
Total operating revenues	<u>1,426,190</u>	<u>1,414,509</u>	<u>1,363,283</u>
Non-Operating and Other Revenues			
New York State appropriations	916,997	747,249	692,046
New York City appropriations	246,850	205,466	181,603
Capital appropriations	365,811	356,139	250,641
Investment income, net	49,410	26,709	21,666
Net appreciation in fair value of investments	15,616	9,565	10,957
Gifts and grants	22,367	7,102	6,623
Other non-operating (expenses) revenues	(4,898)	2,521	(7,917)
Total non-operating and other revenues	<u>1,612,153</u>	<u>1,354,751</u>	<u>1,155,619</u>
Total revenues	<u>\$ 3,038,343</u>	<u>2,769,260</u>	<u>2,518,902</u>

The University's total revenue for fiscal year 2006 exceeded \$3 billion, an increase of \$269 million, or 10%, over the prior year. New York State appropriations accounted for 31% of revenues generated by the University, followed by gifts, grants and contracts at 26%, tuition and fees at 19%, capital appropriations at 12% and New York City appropriations at 8%.

Tuition and fees, net of scholarship discounts and allowances increased by \$30.3 million, or 5%, over fiscal year 2005; this compares with an increase of 6.1% between fiscal years 2004 and 2005. The current year increase can primarily be attributed to increases in graduate tuition rates, fees and enrollment. During fiscal 2006, the University raised both graduate tuition rates (by approximately 17.5%) and instructional fees (i.e., transcript fees, special exams, late registration and change of program); this increase contributed an additional \$26.5 million in tuition and fee revenues. The increase in the consolidated fee, from \$5 to \$15 for each full-time student, contributed another \$4.5 million to the tuition and fees balance. Additionally, an average of 1% increase in enrollment accounted for part of the increase in revenue.

These increases were offset by an increase of \$10.8 million in the scholarship discount and allowance. The scholarship discount and allowance balance represents the amount of financial aid, waivers and scholarships applied directly to students' accounts and is an offset to tuition and fees revenue and scholarship and fellowship expense. \$5.5 million of this increase was due to additional waivers provided to CUNY's students, while the remaining variance was due to additional scholarships and financial aid applied to the students' accounts.

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Approximately \$30 million of the 2005 variance was due to an increase in the number of students enrolled at the CUNY colleges during fiscal year 2005. Overall the University experienced a 2.9% increase in headcount and a 3.1% increase in full-time equivalents students (FTEs). The remaining variance was due to additional revenues derived from continuing education, application and consolidated fees.

The following depicts the University's enrollment trends for the past five years:

STUDENT ENROLLMENT 2002 - 2006

Annual Average Headcount Enrollment and Full-time Equivalent (FTE) Student Enrollment

	<u>Headcount</u>			<u>FTEs</u>		
	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
2006	190,327	29,286	219,613	138,858	17,518	156,376
2005	188,121	29,483	217,604	137,679	17,578	155,257
2004	182,259	29,219	211,478	133,333	17,227	150,560
2003	179,717	29,497	209,214	132,137	16,857	148,994
2002	170,428	27,531	197,959	124,461	15,487	139,948

Enrollment has increased in every year since 2002 and, according to preliminary fall 2006 enrollment statistics, the increase is continuing in fiscal year 2007. Thus, the University continues to make significant progress towards fulfilling its goals, as articulated by the Chancellor, of increasing admissions to the University. The increase in enrollment is an important component in helping the University maintain financial stability.

Grants and Contracts primarily consisting of student financial aid and government and private funds to support the University's research initiatives, approximated 26% of the University's revenue in fiscal 2006. The current year balance decreased by 1% from 2005; whereas, it increased by 1%, between fiscal years 2004 and 2005.

Other Operating Revenues decreased by \$14.6 million, or 23%, between fiscal years 2005 and 2006. The variance primarily consisted of the following decreases: (i) \$5 million at the Research Foundation; (ii) \$3.3 million at the Graduate Center; (ii) \$1.7 million related to miscellaneous income; and (iii) decreases at the University's non-tax levy entities.

The fiscal 2005 balance increased by \$13.2 million, or 27%, from 2004. The majority of this variance was due to the inclusion of \$9 million of rental income related to the 230 West 41st Street LLC. The remainder of the variance was due to other increases and decreases in other operating income at the colleges' non-tax levy entities.

New York State Appropriations increased by \$169.7 million, or 23%, between fiscal years 2005 and 2006. The majority of the variance was due to the following increases in amounts appropriated to the University: (i) \$50.4 million for mandatory costs including \$28.7 million related to fringe benefits, \$7.7 million related to energy, \$9.7 million related to rentals, and \$4.3 million related to salary increases; (ii)

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\$107 million related to the DC37/PSC and skilled trades collective bargaining agreements; (iii) \$4.9 million for new faculty; (iv) \$5 million for the senior college investment program; and (v) \$1.3 million for health and safety.

In fiscal 2005, New York State Appropriations increased by \$55.2 million, or 8%, from fiscal 2004; \$20.2 million of the increase can be attributed to collective bargaining, while the remaining variance was due to increases in funds for mandatory costs such as fringe benefits, utilities and building rentals.

New York City Appropriations increased by \$41.4 million, or 20%, between fiscal years 2005 and 2006, and by \$23.9 million, or 13%, between fiscal years 2004 and 2005. The current year variance was due to the following increases in appropriations: (i) \$9.4 million for mandatory costs including \$5.5 million related to fringe benefits, \$1.2 million related to rentals, and \$2.7 million related to energy; (ii) \$8 million for the Long-Term Unemployment Initiative; (iii) \$4.1 million for Vallone scholarships; (iv) additional funds for collective bargaining related to DC37/PSC and skilled trades.

The 2005 increase was due to the City appropriating an additional \$5 million for pensions and additional funds for the University's other mandatory costs such as fringe benefits, building rentals, utilities and collective bargaining.

Capital Appropriations increased by \$9.7 million, or 3%, between fiscal years 2005 and 2006, and by \$105.5 million, or 42%, between fiscal years 2004 and 2005. The current year variance is primarily due to an increase in debt service payments to bondholders; whereas, the fiscal 2005 increase was due to additional funds needed to pay bondholders and administrative fees to DASNY.

Investment Income, net increased by \$22.7 million, or 85%, from the prior year and was generated from deposits held by bond trustees and amounts held by DASNY, the University's investment pool, RF-CUNY, CUCF, and the University's other related entities. The variance between fiscal years 2005 and 2006 was due to the following increases: (i) \$5.3 million at CUCF; (ii) \$4.7 million in the University's common fund account; (iii) \$1.6 million at RF-CUNY; and (iv) \$8.5 million related to deposits held by bond trustees and amounts held by DASNY. These increases were due to a combination of better returns in fiscal 2006 versus fiscal 2005 and an increase in the amount of funds held for investment purposes.

The 2005 balance increased by \$5 million, or 23%, from the prior year. The majority of the 2005 variance was due to an increase of \$2.2 million at the CUCF, and smaller increases recorded by RF-CUNY, the University's investment pool and colleges' non-tax levy entities.

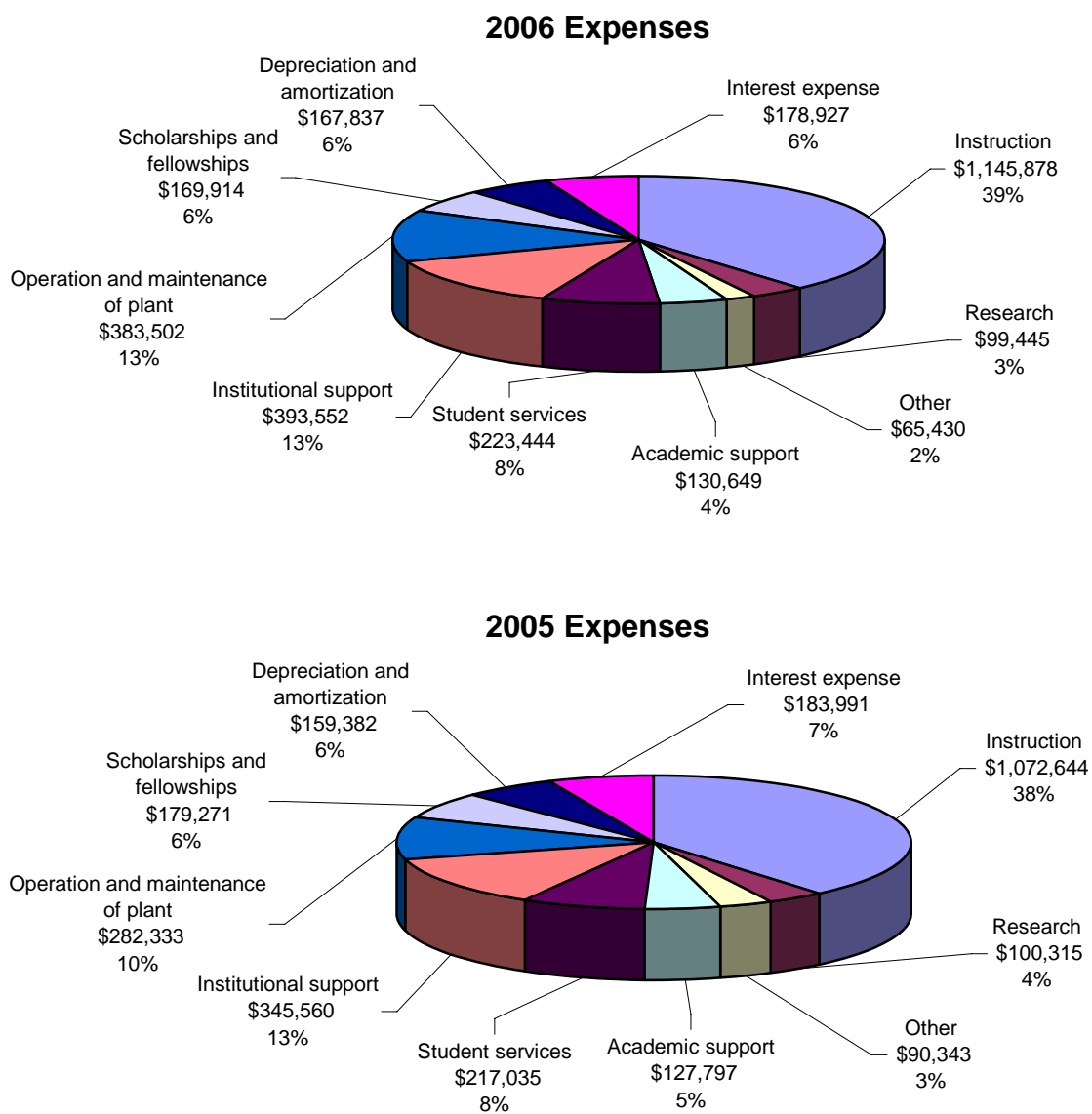
Net Appreciation in Fair Value of Investments represents net realized and unrealized gains and losses on investments. The fiscal 2006 balance increased by \$6 million, or 63%, whereas, the fiscal 2005 balance decreased by \$1.4 million. The current year variance was primarily due to additional realized and unrealized gains on investments in the University's investment pool of \$2.9 million, and an increase of \$4.2 million related to the deposits held by bond trustees and amounts held by DASNY.

Gifts and Grants includes non-exchange contributions and additions to permanent endowment. The 2006 balance increased by \$15.3 million since the prior year. This variance can be primarily attributable to the following increases: (i) \$8.3 million permanent endowment funds for the School of Journalism; and (ii) \$5.5 million in additions to the permanent endowment at the City College 21st Century Fund.

Management's Discussion and Analysis June 30, 2006 and 2005

Other Non-operating (Expenses) Revenues decreased by \$7.4 million between fiscal years 2005 and 2006; whereas, the balance increased by \$10.4 million between fiscal years 2004 and 2005. The variance in both years was due to the following: in fiscal 2005 approximately \$9 million of nonoperating revenues were recorded, which represented a release from escrow for debt service. The purpose of the escrow restructuring transaction was to make excess funds available for debt service while still meeting the escrow funding requirements. The excess was transferred back into the active debt service funds. Since this was a one-time transaction occurring in fiscal 2005, it was primarily responsible for the decrease in non-operating revenues in fiscal year 2006, and increase in fiscal year 2005.

EXPENSES



Other includes public service expenses, transfer to New York State and auxiliary enterprise expenses.

Management's Discussion and Analysis

June 30, 2006 and 2005

(in thousands)

	2006	2005	2004
Operating Expenses			
Instruction	\$ 1,145,878	1,072,644	1,015,378
Research	99,445	100,315	96,386
Public service	48,423	42,063	30,082
Academic support	130,649	127,797	119,407
Student services	223,444	217,035	192,222
Institutional support	393,552	345,560	336,441
Operation and maintenance of plant	383,502	282,333	241,871
Scholarships and fellowships	169,914	179,271	163,592
Auxiliary enterprises	17,007	18,165	16,594
Depreciation and amortization expense	167,837	159,382	156,465
Total operating expenses	2,779,651	2,544,565	2,368,438
Non-Operating Expenses			
Transfer to New York State	-	30,115	-
Interest expense	178,927	183,991	157,013
Total non-operating expenses	178,927	214,106	157,013
Total expenses	\$ 2,958,578	2,758,671	2,525,451

Total expenses for fiscal 2006 exceeded \$2.9 billion, which reflected an increase of \$199.9 million over the prior year. Thirty-nine percent of the University's funds were spent on instruction, followed by institutional support and operation and maintenance of plant at 13% and student services at 8%.

Some of the variances in expenses can be attributed to overall increases in payroll and related fringe benefit costs, and collective bargaining. The University's tax levy fringe benefit expense increased by \$48.2 million to \$397 million between fiscal years 2005 and 2006 and increased by \$44.7 million, or 14%, to \$349.9 million between fiscal years 2004 and 2005. Tax levy payroll expenses increased by \$107.8 million and \$40.5 million between fiscal years 2005 and 2006, respectively.

Instruction expense increased by \$73.2 million, or 7%, from 2005. The variance was due to the following increases: (i) \$33.6 million related to the accrual for the PSC collective bargaining contract; (ii) \$22.9 million in additional fringe benefits costs; (iii) salary or "step" increases given to employees in accordance with contract negotiations with the University's unions; and (iv) \$9 million at RF-CUNY related to training grants.

The fiscal 2005 instruction expense increased by \$57.3 million, or 6%, over the prior year, with \$52 million resulting from an increase in tax levy expenditures for instructional purposes. The following activities contributed to the increase: (i) midway in fiscal year 2004, the City of New York agreed to fund a Community College Investment Program, however, the full effect of this initiative was not felt until fiscal year 2005; (ii) the University's Office of Academic Affairs provided funds to the senior colleges as part of the cluster hire initiative; (iii) many of the colleges hired additional full-time faculty in order to move closer to the 70% full-time faculty target articulated by the Chancellor; and (iv) salary or "step" increases were given to employees in accordance with contract negotiations with the University's unions. Additionally, an increase in expenditures at RF-CUNY related to training grants contributed \$6.5 million to the increase.

Management's Discussion and Analysis

June 30, 2006 and 2005

Research expense of \$99.5 million remained consistent between fiscal years 2005 and 2006 with a 1% decrease; whereas, it increased by \$3.9 million between fiscal years 2004 and 2005 due to an increase in expenditures for research grants at RF-CUNY.

Public Services expense increased by \$6.3 million between fiscal years 2005 and 2006 and by \$12 million between fiscal years 2004 and 2005. The variance in both years was primarily related to the "Training for Long-term Unemployment" initiative. In fiscal 2005, the University received \$10 million for the first time from NYC for this initiative, and in fiscal 2006, the University received \$18 million, an increase of \$8 million over 2005.

Academic Support expenses remained consistent between fiscal years 2005 and 2006 with a 2% increase; whereas, they increased by \$8.4 million, or 7%, between fiscal years 2004 and 2005.

During fiscal year 2005, an additional \$2.8 million of tax levy expenditures were used to support the University's libraries. The remaining variance in fiscal 2005 was due to additional expenditures made to support an increasing number of full-time faculty members, which was directly related to the increase in instruction costs and an increase in enrollment. As was the case for Instructional expenses, some of the variance was attributed to the Community College Investment Program.

Student Services expenditures increased by \$6.4 million, or 3%, between fiscal years 2005 and 2006 and by \$24.8 million, or 12%, between fiscal years 2004 and 2005. The current year variance was primarily due to increases in payroll and fringe benefit costs, while the 2005 variance was due to the following increases: (i) \$15.9 million in tax levy expenditures which was accounted for by the Community College Investment Program as well as increases in payroll and fringe benefit costs; (ii) \$5.1 million in grants at RF-CUNY; and (iii) \$2.5 million in technology fee expenditures.

Institutional Support increased by \$48 million, or 14%, between fiscal years 2005 and 2006. This variance was due to the following increases: (i) \$9.5 million in additional payroll costs related to the PSC collective bargaining agreement; (ii) \$11.7 million in additional fringe benefits; (iii) \$2.4 million at the Research Foundation due to the full year operation of the 230 West 41st Street LLC; (iv) salary increases given to employees in accordance with contract negotiations with the University's unions; and (v) recruitment of staff to manage the University's Enterprise Resource Planning (ERP) project.

The fiscal 2005 institutional support balance increased by \$9.1 million, or 3%, from 2004. This variance was primarily due to the following: (i) the termination of CUNY's annual contract for \$4 million with the NYC Department of Education to provide scheduling and report cards to the public schools necessitated the University adding to its payroll several of the individuals who were paid from the contract; and (ii) increases in salaries and related fringe benefits as mentioned above.

Operation and Maintenance of Plant expenses in fiscal 2006 rose by \$101.2 million, or 36%, over the prior year, after increasing by almost \$40.5 million, or 17%, between fiscal years 2004 and 2005.

Part of the variance in 2006 was due to additional tax levy expenditures for operation and maintenance of plant of \$54.3 million; which was due to the following increases: (i) \$10.4 million in utility costs; (ii) \$10.9 million in rentals; (iii) \$14.8 million in new usage rates for trades titles that were set by the NYC Comptroller's Office; (iv) \$5.6 million for payroll costs related to the PSC contract; (v) \$8.8 million in fringe benefit costs; (vi) salary increases given to employees in accordance with contact negotiations with

Management's Discussion and Analysis

June 30, 2006 and 2005

the University's unions; and (vii) environmental health and safety costs. Additionally, expenditures related to capital projects increased by \$46 million from the prior year.

Most of the variance in 2005 was due to an additional \$22.7 million in tax levy expenditures for operation and maintenance of plant, which was due to the following increases: (i) \$8 million in utility costs; (ii) \$3 million in rentals; (iii) \$2.2 million in new usage rates for trades titles that were set by the NYC Comptroller's Office; (iv) environmental health and safety costs; and (v) local college expenditures for plant maintenance and operations. Additionally, expenditures related to capital projects increased by \$ 17.5 million.

Scholarship and Fellowship expense decreased by \$9.4 million, or 5%, from the prior year. The variance was primarily due to an increase in scholarship and fellowship expense of \$2.3 million, offset by an increase of \$10.8 million (described above) in the scholarship discount and allowance, which was deducted from the scholarship and fellowship expense for financial reporting purposes.

The fiscal 2005 scholarship and fellowship expense increased by \$15.7 million, or 10%, from the prior year. The majority of the variance was due to an increase in Pell grants of \$10 million and an increase in local scholarships of \$3 million.

Interest Expense decreased by \$5 million, or 3%, from the prior year due to decrease in interest related to the University's swap agreements and refinancing of higher interest rate bonds during fiscal year 2005, offset by new bonds issued in fiscal year 2006.

The fiscal 2005 interest expense increased by \$27 million, or 17%, due to an increase in interest related to the University's swap agreements and an increase in bond amortization, offset by the refinancing of higher interest rate bonds during the year.

CAPITAL ASSETS

At June 30, 2006, the University had approximately \$2.95 billion in capital assets, net of accumulated depreciation of \$2.1 billion. Depreciation expense totaled \$163.1 million for the year ended June 30, 2006.

At June 30, 2005, the University had approximately \$2.96 billion in capital assets, net of accumulated depreciation of \$1.99 billion. Depreciation expense totaled \$154.3 million for the year ended June 30, 2005.

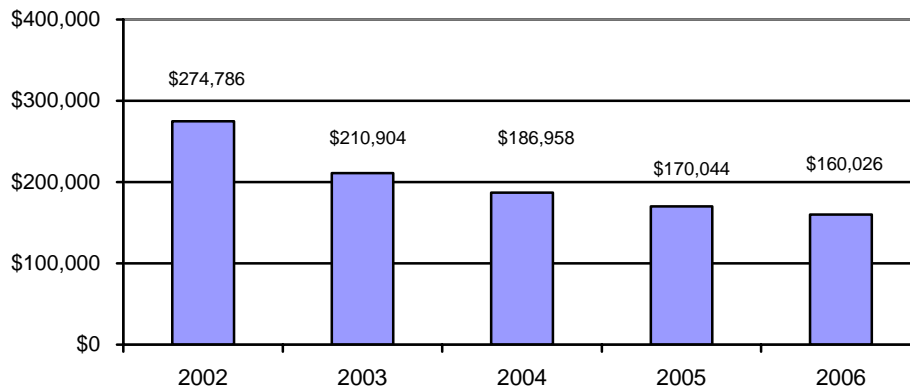
The University's capital program addresses the major new construction, rehabilitation and capital equipment needs of its colleges and is developed in accordance with the University's established priority system as articulated in its Master Plan. Funding is based upon a five-year capital plan, which is subject to final approval by the State. A complete list of project and construction costs is included in the Master Plan. Most of CUNY's capital program is conducted through DASNY on behalf of CUNY.

Management's Discussion and Analysis June 30, 2006 and 2005

The following depicts disbursements made by DASNY for the University's capital construction projects over the last five years:

DASNY Capital Construction Disbursements

(in thousands)

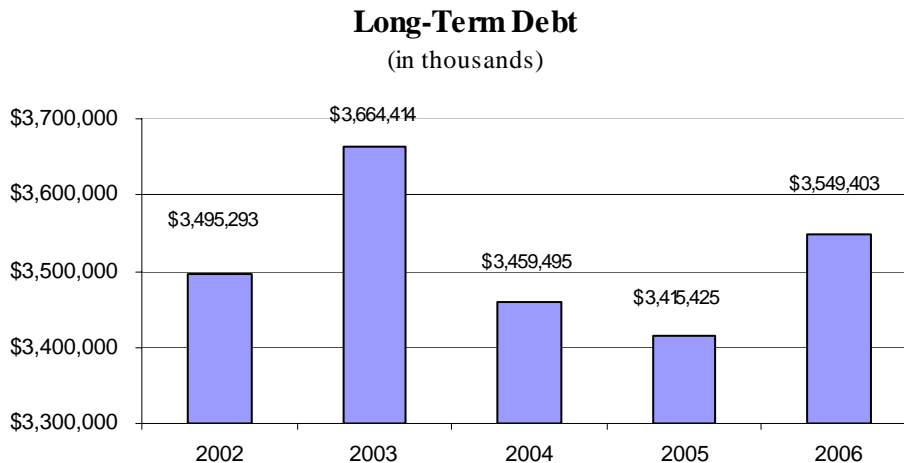


Capital construction disbursements decreased by \$10 million between fiscal years 2005 and 2006. The decrease in capital construction reflects the completion of large projects over the past few years and the elimination of the DASNY building and equipment (B&E) fund which had been used for general rehabilitation of CUNY's facilities. Nevertheless, the University continued to fund new building construction, as well as the rehabilitation, repair and maintenance of its older buildings.

Funding for capital construction and rehabilitation of educational facilities is provided principally through the issuance of bonds authorized by the CUCF and funded through DASNY. In addition, the University has entered into various agreements for the construction of other capital assets and purchase of other equipment through the issuance of Certificates of Participation. Some rehabilitation projects are also funded through city and state capital appropriations.

Management's Discussion and Analysis June 30, 2006 and 2005

The following summarizes the University's long-term debt:



Debt increased by \$134 million, or 4%, from the prior year primarily due to new bonds issued with a par value of \$322 million, original issue premium of \$12.5 million and “use of line” of credit of \$7 million during the year, offset by payment of outstanding debt and amortization of both bond issue premium and discount.

In fiscal year 2005 long-term debt decreased by \$44 million, or 1%, primarily due to payments made during the year, offset by issuance of new debt and the amortization of both bond issue premium and discount.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

In fiscal 2006, the University proposed a new multi-year financing strategy - the CUNY Compact. Through this proposal, a new system of financing CUNY would be shared by the State, the City, and the University (through internal efficiencies), philanthropic sources, and the students through enrollment growth and modest, predictable, tuition increases. The Compact proposal was adopted by the Board of Trustees and fully funded by the State of New York beginning in fiscal year 2007.

The University is projecting a continuation of revenue surpluses associated with continued enrollment growth at the colleges. The growth in enrollment is among other things the result of the strides the University has made in improving its image and reputation. It has done this by raising academic standards at its colleges and implementing new and exciting programs, such as the Honors College and Teacher Academy. Its students and graduates have also won distinction in nationwide competitions.

A new Graduate School of Journalism opened in fall 2006. Concurrent with the launching of this new School, the University began to offer an online Bachelor's degree through its School of Professional Studies.

These and other developments have led to a renewal of public interest in attending The City University of New York.



KPMG LLP
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150 John F. Kennedy Parkway
Short Hills, NJ 07078

Independent Auditors' Report

The Board of Trustees
The City University of New York:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of The City University of New York (the University) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the University's discretely presented foundations, component units of The City University of New York. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University's discretely presented foundations, is based solely on the reports of the other auditors.

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 University'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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of The City University of New York as of June 30, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 1 through 17 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole.

KPMG LLP

October 31, 2006

THE CITY UNIVERSITY OF NEW YORK

Business-type Activities – University Only

Statements of Net Assets

June 30, 2006 and 2005

(In thousands)

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets:		
Cash and cash equivalents (note 3)	\$ 327,602	298,196
Short-term investments (note 3)	135,760	95,211
Deposits held by bond trustees (note 8)	121,781	220,916
Amounts held by the Dormitory Authority of the State of New York (note 8)	16,397	24,511
Receivables (net of allowance for doubtful accounts of \$24,692 and \$22,305 in 2006 and 2005, respectively) (note 4)	343,876	309,318
Prepaid expenses and other current assets	14,043	7,007
Total current assets	<u>959,459</u>	<u>955,159</u>
Noncurrent assets:		
Restricted cash (note 7)	5,903	7,854
Long-term investments (note 3)	178,200	136,589
Deposits held by bond trustees (note 8)	604,670	409,988
Student loans and accrued interest receivable (net of allowance for doubtful loans of \$19,997 and \$20,545 in 2006 and 2005, respectively) (note 4)	5,101	5,627
Capital assets, net (note 5)	2,952,456	2,959,007
Deferred financing costs	40,321	38,643
Other noncurrent assets	10,151	12,649
Total noncurrent assets	<u>3,796,802</u>	<u>3,570,357</u>
Total assets	<u>4,756,261</u>	<u>4,525,516</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses (note 6)	366,870	320,123
Compensated absences (note 7)	65,697	61,240
Deferred tuition and fees revenue	56,003	54,048
Accrued interest payable	47,951	93,866
Current portion of long-term debt (note 7)	106,938	157,844
Deferred grant revenue	63,392	68,031
Collateral held for securities lending (note 3)	24,152	15,421
Other current liabilities	12,709	10,732
Deposits held in custody for others	21,994	19,479
Total current liabilities	<u>765,706</u>	<u>800,784</u>
Noncurrent liabilities (note 7):		
Compensated absences	37,630	39,036
Long-term debt	3,442,465	3,257,581
Federal refundable loans	44,945	46,265
Other noncurrent liabilities	11,214	7,314
Total noncurrent liabilities	<u>3,536,254</u>	<u>3,350,196</u>
Total liabilities	<u>4,301,960</u>	<u>4,150,980</u>
Net assets (deficit):		
Invested in capital assets, net of related debt	(113,632)	(237,540)
Restricted:		
Nonexpendable	47,297	33,569
Expendable:		
Debt service	235,718	334,873
Scholarships and general educational support	110,474	103,121
Loans	6,702	6,991
Other	15,942	22,385
Unrestricted	151,800	111,137
Total net assets	<u>\$ 454,301</u>	<u>374,536</u>

See accompanying notes to financial statements.

THE CITY UNIVERSITY OF NEW YORK

Discretely Presented Component Units – College Foundations

Combined Statements of Financial Position

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash and cash equivalents	\$ 15,523,631	12,640,623
Accounts and other receivables, net	1,245,439	1,458,615
Prepaid expenses and other assets	584,235	537,524
Contributions receivable, net	46,840,493	44,415,026
Investments	243,494,953	212,007,458
Beneficial interest in remainder trusts	7,173,369	1,221,306
Remainder interest in real property	264,000	257,644
Capital assets, net	4,170,574	4,317,983
Total assets	<u>\$ 319,296,694</u>	<u>276,856,179</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 1,821,755	1,763,490
Annuities payable	3,005,132	1,005,311
Due to affiliates	327,905	280,515
Deferred revenue	177,302	177,379
Refundable matching grant	500,000	500,000
Total liabilities	<u>5,832,094</u>	<u>3,726,695</u>
Net assets:		
Unrestricted	41,021,507	36,420,349
Temporarily restricted	118,976,356	96,577,443
Permanently restricted	153,466,737	140,131,692
Total net assets	<u>313,464,600</u>	<u>273,129,484</u>
Total liabilities and net assets	<u>\$ 319,296,694</u>	<u>276,856,179</u>

See accompanying notes to financial statements.

THE CITY UNIVERSITY OF NEW YORK

Business-type Activities – University Only

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

(In thousands)

	<u>2006</u>	<u>2005</u>
Revenues:		
Operating revenues:		
Tuition and fees (net of scholarship allowance of \$329,897 and \$319,141 in 2006 and 2005, respectively)	\$ 582,731	552,440
Grants and contracts:		
Federal	364,830	367,548
New York State	223,827	230,707
New York City	103,177	98,369
Private	83,696	83,414
Total grants and contracts	<u>775,530</u>	<u>780,038</u>
Sales and services of auxiliary enterprises	20,159	19,650
Other operating revenues	47,770	62,381
Total operating revenues	<u>1,426,190</u>	<u>1,414,509</u>
Expenses:		
Operating expenses:		
Instruction	1,145,878	1,072,644
Research	99,445	100,315
Public service	48,423	42,063
Academic support	130,649	127,797
Student services	223,444	217,035
Institutional support	393,552	345,560
Operation and maintenance of plant	383,502	282,333
Scholarships and fellowships	169,914	179,271
Auxiliary enterprises	17,007	18,165
Depreciation and amortization expense	167,837	159,382
Total operating expenses	<u>2,779,651</u>	<u>2,544,565</u>
Operating loss	<u>(1,353,461)</u>	<u>(1,130,056)</u>
Nonoperating revenues (expenses):		
Government appropriations:		
New York State	916,997	747,249
New York City	246,850	205,466
Gifts and grants	6,590	5,132
Investment income, net	49,410	26,709
Interest expense	(178,927)	(183,991)
Net appreciation in fair value of investments	15,616	9,565
Transfer to New York State	—	(30,115)
Other nonoperating (expenses) revenues, net	(4,898)	2,521
Net nonoperating revenues	<u>1,051,638</u>	<u>782,536</u>
Loss before other revenues	<u>(301,823)</u>	<u>(347,520)</u>
Capital appropriations	365,811	356,139
Additions to permanent endowments	15,777	1,970
Total other revenues	<u>381,588</u>	<u>358,109</u>
Increase in net assets	79,765	10,589
Net assets at beginning of year	<u>374,536</u>	<u>363,947</u>
Net assets at end of year	\$ <u>454,301</u>	\$ <u>374,536</u>

See accompanying notes to financial statements.

THE CITY UNIVERSITY OF NEW YORK

Discretely Presented Component Units – College Foundations

Combined Statements of Activities

Years ended June 30, 2006 and 2005

	2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains (losses) and other support:				
Gifts, grants and contributions	\$ 13,832,563	32,099,488	13,292,318	59,224,369
Special events	3,554,636	149,156	—	3,703,792
Program service revenues	570,821	—	—	570,821
Investment income	5,625,341	9,484,012	835,457	15,944,810
Net realized and unrealized gains on investments	1,147,193	1,117,005	172,367	2,436,565
Change in value of split-interest agreements	(43,607)	(62,420)	11,076	(94,951)
Other income	927,321	26,969	85	954,375
Donor agreed restipulation of restriction	(93,661)	(69,642)	163,303	—
Net assets released from restrictions	21,195,528	(19,965,594)	(1,229,934)	—
Total revenues, gains and other support	<u>46,716,135</u>	<u>22,778,974</u>	<u>13,244,672</u>	<u>82,739,781</u>
Expenses:				
Program services	31,760,144	—	—	31,760,144
Management and general	5,089,093	—	—	5,089,093
Fundraising	5,603,113	—	—	5,603,113
Total expenses	<u>42,452,350</u>	<u>—</u>	<u>—</u>	<u>42,452,350</u>
Change in net assets before reclassifications and adjustments	4,263,785	22,778,974	13,244,672	40,287,431
Reclassifications and adjustments	<u>337,373</u>	<u>(380,061)</u>	<u>90,373</u>	<u>47,685</u>
Change in net assets	4,601,158	22,398,913	13,335,045	40,335,116
Net assets at beginning of year	<u>36,420,349</u>	<u>96,577,443</u>	<u>140,131,692</u>	<u>273,129,484</u>
Net assets at end of year	<u>\$ 41,021,507</u>	<u>118,976,356</u>	<u>153,466,737</u>	<u>313,464,600</u>

See accompanying notes to financial statements.

2005

Unrestricted	Temporarily restricted	Permanently restricted	Total
17,552,624	22,313,339	13,553,917	53,419,880
2,617,280	29,228	—	2,646,508
413,799	—	—	413,799
3,278,624	6,610,150	784,398	10,673,172
2,071,822	2,407,014	714,519	5,193,355
(27,606)	39,868	(19,466)	(7,204)
872,326	(1,673)	—	870,653
150	(10,150)	10,000	—
<u>21,599,631</u>	<u>(20,696,434)</u>	<u>(903,197)</u>	<u>—</u>
<u>48,378,650</u>	<u>10,691,342</u>	<u>14,140,171</u>	<u>73,210,163</u>
30,688,458	—	—	30,688,458
4,135,179	—	—	4,135,179
<u>5,311,388</u>	<u>—</u>	<u>—</u>	<u>5,311,388</u>
<u>40,135,025</u>	<u>—</u>	<u>—</u>	<u>40,135,025</u>
8,243,625	10,691,342	14,140,171	33,075,138
<u>(629,220)</u>	<u>268,222</u>	<u>975,711</u>	<u>614,713</u>
7,614,405	10,959,564	15,115,882	33,689,851
<u>28,805,944</u>	<u>85,617,879</u>	<u>125,015,810</u>	<u>239,439,633</u>
<u><u>36,420,349</u></u>	<u><u>96,577,443</u></u>	<u><u>140,131,692</u></u>	<u><u>273,129,484</u></u>

THE CITY UNIVERSITY OF NEW YORK

Business-type Activities – University Only

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(In thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Collection of tuition and fees	\$ 597,665	546,258
Collection of grants and contracts	777,461	790,723
Sales and services of auxiliary enterprises	20,159	19,650
Payments to suppliers	(529,318)	(488,587)
Payments for utilities	(74,152)	(65,231)
Payments to employees	(1,380,327)	(1,317,331)
Payments for benefits	(413,590)	(345,144)
Payments for scholarships and fellowships	(169,914)	(179,271)
Other receipts	73,640	71,875
Net cash flows used by operating activities	<u>(1,098,376)</u>	<u>(967,058)</u>
Cash flows from noncapital financing activities:		
State and City appropriations	1,090,155	911,915
Gifts and grants for other than capital purposes	6,590	5,132
Private gifts for endowment purposes	15,777	1,970
Loans issued to students	(11,062)	(6,742)
Collection of loans from students	9,743	8,094
Increase in deposits held in custody for others	2,515	10,890
Other payments	(1,946)	(26,643)
Net cash flows provided by noncapital financing activities	<u>1,111,772</u>	<u>904,616</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	341,570	527,193
Capital appropriations	365,811	356,139
Purchases of capital assets	(154,859)	(262,181)
Principal paid on capital debt	(222,810)	(582,316)
Interest paid on capital debt	(209,624)	(171,904)
Amounts paid for bond issuance costs	(4,550)	(11,163)
(Increase) decrease in deposits held by bond trustees	(95,547)	150,705
Decrease in amounts held by the Dormitory Authority of the State of New York	8,114	6,802
Net cash flows provided by capital and related financing activities	<u>28,105</u>	<u>13,275</u>
Cash flows from investing activities:		
Investment income	47,669	27,720
Proceeds from sales and maturities of investments	299,094	314,342
Purchases of investments	(365,638)	(284,134)
Deposit of restricted cash	(1,951)	7,854
Increase (decrease) in collateral held for securities lending	8,731	(109)
Net cash flows (used) provided by investing activities	<u>(12,095)</u>	<u>65,673</u>
Increase in cash and cash equivalents	29,406	16,506
Cash and cash equivalents at beginning of year	<u>298,196</u>	<u>281,690</u>
Cash and cash equivalents at end of year	<u>\$ 327,602</u>	<u>298,196</u>

THE CITY UNIVERSITY OF NEW YORK

Business-type Activities – University Only

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(In thousands)

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash flows used by operating activities:		
Operating loss	\$ (1,353,461)	(1,130,056)
Adjustments to reconcile operating loss to net cash flows used by operating activities:		
Depreciation and amortization expense	167,837	159,382
Change in operating assets and liabilities:		
Receivables	41,400	(18,959)
Prepaid expenses and other assets	(4,991)	(4,995)
Accounts payable and accrued expenses	44,595	3,925
Deferred tuition and fees revenue	1,955	7,274
Compensated absences	3,051	4,460
Deferred grant revenue	(4,639)	12,735
Other liabilities	5,877	(824)
Net cash flows used by operating activities	<u>\$ (1,098,376)</u>	<u>(967,058)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

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(1) Organization and Reporting Entity

The City University of New York (the University, or CUNY) is a municipal college system located in the City of New York and is composed of the following 13 senior colleges, including a graduate and law school, and 6 community colleges:

Senior Colleges

Bernard M. Baruch College
Brooklyn College
City College
City University School of Law at Queens College
The Graduate School and University Center
Hunter College
John Jay College of Criminal Justice
Herbert H. Lehman College
Medgar Evers College
New York City College of Technology
Queens College
The College of Staten Island
York College

Community Colleges

Borough of Manhattan Community College
Bronx Community College
Eugenio Maria de Hostos Community College
Kingsborough Community College
Fiorello H. LaGuardia Community College
Queensborough Community College

In addition to the senior and community colleges listed above, other related organizations, including the Research Foundation of The City University of New York (RF-CUNY), the City University Construction Fund (CUCF), child care centers, auxiliary service corporations, and student associations were determined to be includable in the University's financial reporting entity. The key element for inclusion in the reporting entity is based primarily on financial accountability. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, defines financial accountability in terms of a primary government (the University) that is financially accountable for the organizations that make up its legal entity. The University is financially accountable for legally separate organizations if its officers appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the University. The University may also be financially accountable for governmental organizations that are fiscally dependent on it. Other organizations for which the nature and significance of their relationships with the University are such that exclusion from the financial reporting entity would render the reporting entity's financial statements to be misleading or incomplete may also be included in the financial reporting entity.

THE CITY UNIVERSITY OF NEW YORK

Notes to Financial Statements

June 30, 2006 and 2005

Further, the State of New York presents the senior colleges as an enterprise fund (business-type activity), as defined by GASB Statement No. 14, in its financial statements. Similarly, the City of New York presents CUCF as a component unit in its financial statements. In addition, the community colleges are reported as part of the primary government of the City of New York.

The accompanying basic financial statements include the operations of the following related organizations, which are blended with the accounts of the University:

RF-CUNY

RF-CUNY is a separate not-for-profit educational corporation and legal entity which operates as the fiscal administrator for the majority of University-sponsored programs financed by restricted grants and contracts. Such programs include research, training, and public service activities.

230 West 41st Street LLC (the Company) was established on May 7, 2004 as a Delaware limited liability company. The Company was organized pursuant to the Limited Liability Operating Agreement (the Agreement) dated July 14, 2004 by RF-CUNY with a 100% interest in the Company. The Company was formed to acquire, own, and operate an approximately 300,000 square foot office building located at 230 West 41st Street in New York, New York. The Company will continue indefinitely, unless terminated sooner pursuant to the Agreement.

The University has a financial benefit/burden relationship with RF-CUNY. Accordingly, financial activity related to RF-CUNY is included in the accompanying basic financial statements.

CUCF

CUCF is a public benefit corporation which has the authority to design, construct, reconstruct, and rehabilitate facilities of the University pursuant to an approved master plan. The University has a financial benefit/burden relationship with CUCF and, therefore, the financial activity related to CUCF is included in the accompanying basic financial statements.

Other Related Organizations

The majority of the University's colleges maintain auxiliary services, child care centers, and certain performing arts corporations. These entities are campus-based, not-for-profit corporations which operate, manage, and promote educationally-related services for the benefit of the campus community. Although separate and independent legal entities, those corporations carry out operations which are integrally related to the University and are included in the accompanying basic financial statements.

The colleges' student associations carry out operations which are integrally related to the University. Accordingly, financial activity related to these associations is included in the accompanying basic financial statements.

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Notes to Financial Statements

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College Foundations

Under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* — an amendment of GASB Statement No. 14, legally separate organizations meeting certain criteria should be discretely presented as component units. The criteria are:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the University/college, its component units or its constituents (e.g., students, faculty and staff).
2. The University/college, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the University/college, or its component units, is entitled to, or has the ability to otherwise access, are significant to the University.

Each of the 18 foundations listed below met these criteria, and are, therefore, discretely presented in the University's basic financial statements. All of the foundations listed below are June 30 year-ends, with the exception of Herbert H. Lehman College Foundation, Inc., which is a December 31 year-end. The majority of the members of the foundations' Board of Directors are made up of individuals who are independent from the University or college.

Senior Colleges

The Baruch College Fund
The Brooklyn College Foundation, Inc.
The City College Fund
The City University School of Law at Queens College Foundation, Inc.
The Graduate Center Foundation, Inc.
The Hunter College Foundation, Inc.
John Jay College Foundation, Inc.
Herbert H. Lehman College Foundation, Inc.
Medgar Evers Educational Foundation, Inc.
New York City College of Technology Foundation, Inc.
Queens College Foundation, Inc.
The College of Staten Island Foundation, Inc.

Community Colleges

Borough of Manhattan Community College Foundation, Inc.
Bronx Community College Foundation, Inc.
Eugenio Maria de Hostos Community College Foundation
Kingsborough Community College Foundation, Inc.
Fiorello H. LaGuardia Community College Foundation, Inc.
Queensborough Community College Fund, Inc.

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The operations of certain related but independent organizations existing at each campus, such as certain campus-related alumni associations, are not included in the accompanying basic financial statements because they do not meet the third criteria for inclusion under GASB Statement No. 39; that is, the economic resources received or held by these organizations that the University or college, or its component units, are entitled to, or has the ability to access, are not significant to the University.

Copies of the foundation audit reports can be obtained by sending an inquiry to The City University of New York, Office of the University Controller, 230 West 41st Street, 5th floor, New York, New York, 10036.

(2) **Summary of Significant Accounting Policies**

In addition to GASB Statements Nos. 14 and 39, which were discussed previously, the significant accounting policies followed by the University are described below:

Measurement Focus and Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's basic financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as promulgated by the GASB. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized when incurred, if measurable.

GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, establishes financial reporting requirements that require the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of: management's discussion and analysis, basic financial statements, and required supplementary information.

GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities — an amendment of GASB Statement No. 34*, establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34. In accordance with this statement, the University presents statements of net

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Notes to Financial Statements

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assets, revenues, expenses, and changes in net assets, and cash flows on a University-wide basis. The objective of this statement is to enhance the understandability and usefulness of the external financial reports issued by public colleges and universities.

GASB Statement No. 37, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statement No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, were implemented simultaneously with GASB Statement No. 34.

The University’s reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB statements and interpretations issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents are composed of highly liquid assets with original maturities of 90 days or less, and include overnight repurchase agreements, commercial paper, and money market accounts.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, debt and equity securities and certain other investments with readily determinable fair values are required to be reported at fair value. Accordingly, the University’s investments are reported at fair value, which is based upon values provided by the University’s custodian or current market quotations and assessed by the University for reasonableness, in the accompanying statements of net assets, and all investment income, including changes in the fair value of investments, is recognized as gain (loss) in the accompanying statements of revenues, expenses, and changes in net assets.

Noncurrent Assets

Noncurrent assets include: (1) cash and other assets or resources commonly identified as those which are expected to be realized in cash or sold or consumed beyond the normal operating cycle (12 months or more); (2) restricted assets, which should be reported when restrictions on assets change the nature or normal understanding of the availability of the asset. For example, cash and investments normally are classified as current assets, and a normal understanding of these assets presumes that restrictions do not limit the University’s ability to use the resources to pay current liabilities. But cash and investments held in

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a separate account that can be used to pay debt principal and interest only as required by the debt covenants and that cannot be used to pay other current liabilities should be reported as restricted assets; and (3) investments purchased with a long-term objective, which should not be reported as current assets, even though they are within one year of maturity, as the managerial intent was that the resources are not available for current uses or needs.

Cash and investments that are externally restricted to make debt service payments or long-term loans to students, or to purchase capital or other noncurrent assets, are classified as noncurrent assets in the accompanying statements of net assets.

Deferred Financing Costs

The University capitalizes costs incurred in connection with its bonds and amortizes these costs over the life of the respective obligations. These deferred costs are included as other current and noncurrent assets in the accompanying statements of net assets.

Capital Assets

Land, land improvements, buildings, building improvements, infrastructure, and infrastructure improvements, are stated at cost or cost-based appraisal values based upon an independent appraisal performed in 2002, with subsequent additions at cost at date of acquisition or fair value at date of donation in the case of gifts. Equipment, and works of art and historical treasures, are stated at cost at date of acquisition or appraised value at date of donation.

In accordance with the University's capitalization policy, only those items with unit costs of more than \$5,000 (excluding computer hardware, which has a threshold of \$1,000) and useful lives of two years or more are capitalized. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful lives of the structures are capitalized. Net interest costs on debt related to construction in progress are capitalized. University capital assets, with the exception of land, construction in progress, and works of art and historical treasures, are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 40 years.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

At July 1, 2005, the University adopted GASB Statement No. 42 (GASB 42), *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This new accounting standard requires the University to report the effects of capital asset impairment in its financial statements, and establishes accounting guidance for recording insurance recoveries. The adoption of GASB 42 did not have a material impact on the University's financial statements.

Noncurrent Liabilities

Noncurrent liabilities include: (1) principal and interest amounts of debt obligations with contractual maturities greater than one year; (2) federal refundable loans; and (3) estimated amounts of compensated absences and other liabilities that will not be paid within the next fiscal year.

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Deferred Revenue

Deferred tuition and fees revenue consists primarily of tuition and fees not earned during the current year. Deferred grant revenue includes amounts from grant and contract sponsors that have not yet been earned.

Net Assets

GASB Statement No. 35 requires that resources be classified for accounting purposes into the following four net asset categories:

Invested in capital assets, net of related debt – This represents the University’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – nonexpendable – Nonexpendable restricted net assets consist of endowment and similar-type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net assets – expendable – Expendable restricted net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived primarily from student tuition and fees, State and City appropriations, and sales and services of auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University’s policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Revenue Recognition

Student tuition and fee revenues are recognized in the period earned. Included in revenues are appropriations from New York State and City which are used for the reimbursement of operating expenses. Appropriation revenues are recognized as the related expenses are incurred.

New York State and City appropriations remain in effect provided the expense has been incurred at June 30, 2006 and a liability established at September 29, 2006. Accordingly, an appropriation receivable is recorded for accounts payable and accrued expenses to be paid from these appropriations.

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Classification of Revenues

The University's policy for defining operating activities in the accompanying statements of revenues, expenses, and changes in net assets are those that serve the University's principal purpose and generally result from exchange transactions, such as payments received for services and payments made for the purchase of goods and services. Examples include: (1) tuition and fees, net of scholarship allowances; (2) sales and services of auxiliary enterprises; and (3) most Federal, State, local, private grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as contributions, operating and capital appropriations from the State and the City of New York, and investment income.

Scholarship Allowances

Student tuition and fee revenues are reported net of scholarship allowances in the accompanying statements of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on behalf of students. To the extent that these revenues are used to satisfy tuition and fees, the University has recorded a scholarship allowance.

Income Tax Status

The University is exempt from Federal income taxes under Section 115 of the Internal Revenue Code.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the following notes.

Summary of Significant Accounting Policies Related to Component Units

Purchase Accounting for Acquisition of Real Estate

The fair value of 230 West 41st Street LLC's (the Company) acquired rental property is allocated to the acquired tangible assets, consisting of land, building and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and value of tenant relationships, based in each case on their fair values.

The fair value of the tangible assets of an acquired property (which includes land and building) is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and building based on the Company's determination of relative fair values of these assets. Factors considered by the Company in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. The Company also estimates costs to execute similar leases, including leasing commissions.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the difference between the current in-place lease rent and the Company's estimate of current market rents. Below-market lease intangibles are recorded as part of liabilities, and amortized into rental revenues over the noncancelable

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period of the respective leases. Above-market lease intangibles are recorded as part of assets and are amortized as a direct charge against rental revenues over the noncancelable periods of the respective leases.

The aggregate value of other acquired intangible assets, consisting of in-place leases and tenant relationships, is measured by the excess of (i) the purchase price paid for the property over (ii) the estimated fair value of the property as if vacant, determined as set forth above. This aggregate value is allocated between in-place lease values and tenant relationships based on management's evaluation of the specific characteristics of each tenant's lease. The value of in-place leases is amortized to expense over the remaining noncancelable periods of the respective leases.

The weighted average amortization period for value of in-place leases, above market leases and below market leases is approximately five years.

(3) Cash, Cash Equivalents, and Investments

The University follows GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, which establishes and modifies disclosure requirements related to the following investment and deposit risks:

Custodial credit risk:

Deposits – risk that, in the event of failure of a depository financial institution, the University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Investments – risk that, in the event of failure of the counterparty (the party that pledges collateral or that sells investments to or buys investments from the University) of a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the investment or deposit.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of the investment or deposit.

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Notes to Financial Statements

June 30, 2006 and 2005

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it.

At June 30, 2006, cash and cash equivalents were held by depositories and amounted to \$265,544,879, of which \$15,763,996 was insured and \$249,780,883 was uninsured and uncollateralized, or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the University's name. The carrying value of such funds amounted to \$327,602,000 at June 30, 2006.

At June 30, 2005, cash and cash equivalents were held by depositories and amounted to \$259,023,157, of which \$16,553,889 was insured and \$242,469,268 was uninsured and uncollateralized, or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the University's name. The carrying value of such funds amounted to \$298,196,000 at June 30, 2005.

The University's investment policy does not place formal limits on cash deposits, or on uninsured investments held by counterparties.

Investments

At June 30, 2006 and 2005, the University had the following investments (in thousands):

Investment type	2006	2005
U.S. Treasury bills	\$ 31,359	37,024
Cash and cash equivalents	21,923	38,602
Repurchase agreements	54,658	16,160
Certificates of deposits	5,125	3,783
Corporate bonds	19,501	19,831
Equities	83,496	69,644
Mutual funds	24,432	20,028
U.S. Agency mortgage-backed securities	39,399	14,345
U.S. Treasury notes	29	249
U.S. Government bonds	24,448	11,876
Alternative investments	14,855	-
Other	1,233	886
Total investments	320,458	232,428
Due to broker, net	(6,498)	(628)
Total investments, net	\$ 313,960	231,800
Less current portion of investments	135,760	95,211
Total noncurrent portion of investments	\$ 178,200	136,589

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Notes to Financial Statements

June 30, 2006 and 2005

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's \$24,152,000 and \$15,421,000 in securities lending transactions at June 30, 2006 and 2005, respectively, are held in the investment's counterparty, not in the University's name.

The University holds repurchase agreements at June 30, 2006 and 2005 in the amount of \$54,658,000 and \$16,160,000, respectively, which are collateralized by obligations guaranteed by the United States of America, by an agency, corporation or other instrumentality thereof.

Securities Lending

The University lends certain securities to broker-dealers and other entities under a contractual agreement with its custodian. In exchange for the securities loaned, the University receives collateral, which has an underlying fair value in amounts of not less than 102% of the securities loaned. The custodian may invest the cash collateral in U.S. Government securities or repurchase agreements, which are fully collateralized by U.S. Government securities, high grade corporate obligations, high grade asset-backed securities, or domestic money market instruments. The custodian may not invest the collateral in any securities which cause the dollar-weighted average portfolio maturity of the cash collateral to exceed 45 days or the dollar-weighted average mismatch (the relationship between the maturities of the invested collateral and the maturities of the securities loaned) to exceed 30 days.

The University is indemnified by its custodian against borrowers who fail to return securities, provide inadequate collateral to replace the securities, or fail to pay distributions by securities' issuers while the securities are on loan. Further, the University cannot pledge or sell any of the collateral received unless the borrower defaults. At June 30, 2006 and 2005, the University had no credit risk resulting from securities-lending transactions.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, cash received as collateral from financial institutions on securities lending transactions and investments made with that cash are reported as assets, while obligations resulting from these transactions are reported as liabilities in the accompanying statements of net assets. Securities received as collateral on securities lending transactions are not required to be reported in the accompanying statements of net assets because the University does not have the ability to pledge or sell these securities received as collateral without a borrower default. The collateral received is held in the custodian's investment portfolio.

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Notes to Financial Statements

June 30, 2006 and 2005

Securities on loan with cash collateral held in the custodian's short-term investment pool at June 30, 2006 (in thousands):

Investment type	Underlying securities	Collateral received	Collateral investment value
U.S. Treasury bills	\$ 209	210	210
Corporate bonds	1,661	1,686	1,686
Equities	14,784	14,994	14,994
U.S Treasury notes	9,960	10,152	10,152
U.S. Government bonds	3,513	3,579	3,579
Total	\$ <u>30,127</u>	<u>30,621</u>	<u>30,621</u>

Securities on loan with cash collateral held in the custodian's short-term investment pool at June 30, 2005 (in thousands):

Investment type	Underlying securities	Collateral received	Collateral investment value
Corporate bonds	\$ 2,724	2,764	2,764
Equities	10,996	11,351	11,351
U.S. Government bonds	5,310	5,418	5,418
Total	\$ <u>19,030</u>	<u>19,533</u>	<u>19,533</u>

The University's investment policy does not formally address custodial credit risk.

At June 30, 2006 and 2005, investments include \$24,152,000 and \$15,421,000, respectively, of repurchase agreements that have been lent out in accordance with securities lending contracts for which cash collateral has been received. Further, at June 30, 2006 and 2005, the University also received securities, having a fair value of \$6,468,745 and \$4,112,421, respectively, as collateral on securities lending contracts which, in accordance with GASB Statement No. 28, are not included in the accompanying statements of net assets.

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Credit Risk

At June 30, 2006, the University's investments in debt securities were rated as follows (in thousands):

Type of debt security	Fair value	S&P credit rating
Corporate bonds	\$ 1,178	AAA
Corporate bonds	395	AA
Corporate bonds	1,834	AA-
Corporate bonds	2,826	A+
Corporate bonds	1,401	A
Corporate bonds	341	A-
Corporate bonds	819	BBB+
Corporate bonds	1,356	BBB
Corporate bonds	631	BBB-
Corporate bonds	1,104	BB+
Corporate bonds	523	BB
Corporate bonds	1,163	BB-
Corporate bonds	812	B+
Corporate bonds	938	B
Corporate bonds	385	B-
Corporate bonds	450	CCC+
Corporate bonds	112	CCC-
Corporate bonds	<u>3,233</u>	Not Rated
Total corporate bonds	19,501	
U.S. Agency mortgage-backed securities	39,399	Not Rated
Mutual funds invested in debt securities	684	Not Rated
Other	50	A-
Other	<u>250</u>	Not Rated
Total	\$ <u><u>59,884</u></u>	

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Notes to Financial Statements

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At June 30, 2005, the University's investments in debt securities were rated as follows (in thousands):

Type of debt security	Fair value	S&P credit rating
Corporate bonds	\$ 1,509	AAA
Corporate bonds	40	AA+
Corporate bonds	124	AA
Corporate bonds	2,872	AA-
Corporate bonds	5,083	A+
Corporate bonds	1,815	A
Corporate bonds	909	A-
Corporate bonds	577	BBB+
Corporate bonds	730	BBB
Corporate bonds	265	BBB-
Corporate bonds	965	BB+
Corporate bonds	208	BB
Corporate bonds	562	BB-
Corporate bonds	545	B+
Corporate bonds	702	B
Corporate bonds	140	B-
Corporate bonds	322	CCC+
Corporate bonds	<u>2,463</u>	Not Rated
Total corporate bonds	19,831	
U.S. Agency mortgage-backed securities	14,345	Not Rated
Mutual funds invested in debt securities	<u>1,303</u>	Not Rated
Total	\$ <u><u>35,479</u></u>	

U.S. mortgage-backed securities are not rated by S&P; however, there is an implied AAA rating in the market.

The University's investment policy requires that the overall average quality of each fixed income portfolio be AA or higher. Non-rated issues or issues below investment grade (below BBB) may be purchased up to a maximum of 15% of the University's portfolio. The policy does not otherwise place formal limitations on credit risk.

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Interest Rate Risk

At June 30, 2006, the University's investments in debt securities had the following maturities (in thousands):

Investment type	Fair value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. Treasury bills	\$ 31,359	31,359	-	-	-
Repurchase agreements	54,658	54,658	-	-	-
Certificates of deposits	5,125	3,895	812	418	-
Corporate bonds	19,501	1,513	3,600	5,034	9,354
U.S. Agency mortgage-backed securities	39,399	20,153	86	236	18,924
U.S. Treasury notes	29	3	26	-	-
U.S. Government bonds	24,448	7,694	10,335	3,724	2,695
Other	300	-	250	50	-
Total	\$ 174,819	119,275	15,109	9,462	30,973

At June 30, 2005, the University's investments in debt securities had the following maturities (in thousands):

Investment type	Fair value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. Treasury bills	\$ 37,024	37,024	-	-	-
Repurchase agreements	16,160	16,160	-	-	-
Certificates of deposits	3,783	2,154	1,194	435	-
Corporate bonds	19,831	5,503	4,242	3,531	6,555
U.S. Agency mortgage-backed securities	14,345	235	140	-	13,970
U.S. Treasury notes	249	-	249	-	-
U.S. Government bonds	11,876	1,718	3,517	1,365	5,276
Total	\$ 103,268	62,794	9,342	5,331	25,801

The University's investment policy does not formally limit investment maturities as a means of managing exposure to fair market value losses arising from increasing interest rates.

Investment Pool

Certain assets included with investments in the accompanying financial statements are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit determined quarterly. At June 30, 2006 and 2005, the investment pool consisted of 99,411,582 and

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84,501,200 units with a fair value of \$149,103,712 and \$130,317,689, respectively. The investment pool includes certain gifts and bequests received by the University, the use of which is restricted by donor-imposed limitations. During 2006 and 2005, the University recorded approximately \$5,384,000 and \$3,493,000, respectively, of net realized and unrealized appreciation of donor-restricted expendable and nonexpendable endowments. Under provisions of New York State law, gains on investments of endowment funds may be expended subject to certain limitations.

(4) Receivables, net

Receivables consist of the following at June 30, 2006 and 2005 (in thousands):

Receivables, net	2006	2005
Appropriations receivable	\$ 214,656	140,964
Students and financial aid receivable	34,876	48,304
Grants and contracts receivable	54,463	61,033
Student loan receivables and accrued interest receivable	28,042	28,043
Other receivables	16,940	36,601
Total receivables, net	\$ <u>348,977</u>	<u>314,945</u>

(5) Capital Assets, net

Capital assets consist of the following at June 30, 2005 and 2006 (in thousands):

Capital assets	July 1, 2004	ADDITIONS	REDUCTIONS	June 30, 2005	ADDITIONS	REDUCTIONS	June 30, 2006
Buildings and building improvements	\$ 3,453,343	125,262	613	3,577,992	169,712	2,022	3,745,682
Construction in progress	533,539	135,881	82,415	587,005	106,501	207,808	485,698
Equipment	380,683	39,210	34,250	385,643	36,335	22,334	399,644
Infrastructure and infrastructure imprv.	4,812	19,457	-	24,269	43,610	3	67,876
Land	287,467	9,037	-	296,504	2,381	-	298,885
Land improvements	61,314	272	-	61,586	9,364	185	70,765
Works of art and historical treasures	11,497	105	30	11,572	186	8	11,750
Total capital assets	<u>4,732,655</u>	<u>329,224</u>	<u>117,308</u>	<u>4,944,571</u>	<u>368,089</u>	<u>232,360</u>	<u>5,080,300</u>
Less accumulated depreciation:							
Buildings and building improvements	1,493,435	117,029	194	1,610,270	123,240	103	1,733,407
Equipment	309,355	35,954	33,691	311,618	35,758	20,715	326,661
Infrastructure and infrastructure imprv.	3,088	1,109	-	4,197	3,289	-	7,486
Land improvements	59,265	214	-	59,479	810	-	60,289
Total accumulated depreciation	<u>1,865,143</u>	<u>154,306</u>	<u>33,885</u>	<u>1,985,564</u>	<u>163,098</u>	<u>20,818</u>	<u>2,127,844</u>
Total capital assets, net	\$ <u>2,867,512</u>	<u>174,918</u>	<u>83,423</u>	<u>2,959,007</u>	<u>204,991</u>	<u>211,542</u>	<u>2,952,456</u>

Added to construction in progress is net capitalized interest of \$1,439,000 and \$2,522,000 for the years ended June 30, 2006 and 2005, respectively. These amounts represent interest expense of \$1,599,000 and \$3,732,000 for the years ended June 30, 2006 and 2005, respectively, and reduced by investment income of \$160,000 and \$1,210,000 for the years ended June 30, 2006 and 2005, respectively.

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(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30, 2006 and 2005 (in thousands):

Accounts payable and accrued expenses	2006	2005
Personal services	\$ 90,712	69,140
Fringe benefits	65,688	45,329
Capital projects	33,569	31,417
Due to City of New York	28,635	30,493
Due to State of New York	20,058	27,192
Vendors and other	<u>128,208</u>	<u>116,552</u>
Total accounts payable and accrued expenses	<u>\$ 366,870</u>	<u>320,123</u>

(7) Noncurrent Liabilities

Noncurrent liabilities at June 30, 2006 consist of the following (in thousands):

Noncurrent liabilities	July 1, 2005	ADDITIONS	REDUCTIONS	June 30, 2006	Current Portion
Long-Term Debt					
Mortgage loan payable	\$ 62,000	-	-	62,000	672
Capital lease agreements with DASNY	3,261,035	334,553	191,251	3,404,337	82,138
Certificates of participation	88,558	-	16,011	72,547	16,747
Other capital lease agreements	3,832	-	330	3,502	364
Line of credit	<u>-</u>	<u>7,017</u>	<u>-</u>	<u>7,017</u>	<u>7,017</u>
Total long-term debt	<u>3,415,425</u>	<u>341,570</u>	<u>207,592</u>	<u>3,549,403</u>	<u>106,938</u>
Other liabilities:					
Compensated absences	100,276	4,627	1,576	103,327	65,697
Federal refundable loans	46,265	-	1,320	44,945	-
Other noncurrent liabilities	<u>7,314</u>	<u>4,162</u>	<u>262</u>	<u>11,214</u>	<u>-</u>
Total other liabilities	<u>153,855</u>	<u>8,789</u>	<u>3,158</u>	<u>159,486</u>	<u>65,697</u>
Total noncurrent liabilities	<u>\$ 3,569,280</u>	<u>350,359</u>	<u>210,750</u>	<u>3,708,889</u>	<u>172,635</u>

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Noncurrent liabilities at June 30, 2005 consist of the following (in thousands):

Noncurrent liabilities	July 1, 2004	ADDITIONS	REDUCTIONS	June 30, 2005	Current Portion
Long-Term Debt					
Mortgage loan payable	\$ -	62,000	-	62,000	553
Capital lease agreements with DASNY	3,351,649	465,193	555,807	3,261,035	140,951
Certificates of participation	103,716	-	15,158	88,558	16,011
Other capital lease agreements	4,130	-	298	3,832	329
Total long-term debt	<u>3,459,495</u>	<u>527,193</u>	<u>571,263</u>	<u>3,415,425</u>	<u>157,844</u>
Other liabilities:					
Compensated absences	95,816	4,978	518	100,276	61,240
Federal refundable loans	45,958	7,667	7,360	46,265	-
Other noncurrent liabilities	7,207	107	-	7,314	-
Total other liabilities	<u>148,981</u>	<u>12,752</u>	<u>7,878</u>	<u>153,855</u>	<u>61,240</u>
Total noncurrent liabilities	<u>\$ 3,608,476</u>	<u>539,945</u>	<u>579,141</u>	<u>3,569,280</u>	<u>219,084</u>

Mortgage Loan Payable

On July 11, 2004, the Company, a component unit of the University, entered into a mortgage loan (the Loan) with a principal amount of \$62 million, which matures on August 11, 2014. The Loan bears interest at a rate of 6.19% and is payable in monthly installments of interest only through August 2006; thereafter, principal and interest payments are due in equal monthly installments of \$379,329. A balloon payment is due at maturity consisting of unpaid principal and accrued and unpaid interest.

The following is a summary of future minimum mortgage payments required under the mortgage loan payable at June 30, 2006 (in thousands):

Mortgage loan payable	
Fiscal year	Principal
2007	\$ 672
2008	777
2009	827
2010	880
2011	936
2012 – 2016	<u>57,908</u>
Total minimum mortgage payments	<u>\$ 62,000</u>

The Loan is secured by the property and assignment of rents and other payments from the tenants.

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The Loan is subject to certain restrictive financial covenants, including limitations on the incurrence of additional indebtedness. Management believes the Company is in compliance with all covenants at June 30, 2006 and 2005. The Loan is subject to certain prepayment penalties if it is repaid prior to its maturity date.

The Company was required to maintain a letter of credit with an initial value of \$8 million collateralized by cash for tenant improvements. The balance on this letter of credit at June 30, 2006 and 2005 was \$0 and \$4.9 million, respectively. The restricted cash collateral in a like amount is included in restricted cash on the accompanying balance sheet. Also included in restricted cash are amounts to be funded for replacements and repairs, and leasing commissions as required by the loan agreement.

Long-term Debt

The University has entered into capital lease agreements for much of its capital assets with the Dormitory Authority of the State of New York (DASNY). In addition, the University has entered into various agreements for construction of other capital assets and the purchase of other equipment through the issuance of certificates of participation. The University has also entered into certain leases for leasehold improvements, which have been treated as capital leases.

Capital Lease Agreements with the Dormitory Authority of the State of New York

Under the University's capital lease agreements with DASNY, construction costs are initially paid with the proceeds of bonds issued by DASNY. The bonds, with a maximum 30-year life, are repaid by DASNY via appropriations received from both New York State and New York City. Annual bond payments are secured by instructional and noninstructional fees, State appropriations for University operating expenditures, per capita State aid to New York City or New York State personal income tax receipts. Upon repayment of the bonds and the satisfaction of all other obligations under the agreements, all rights, title, and interest in the projects are conveyed to the State of New York (for senior colleges) or the City of New York (for community colleges).

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The following is a schedule by year of future minimum lease payments under these capital leases, together with the net swap amount, assuming current interest rates remain the same, and the present value of the minimum lease payments at June 30, 2006 (in thousands):

Capital lease agreements with DASNY				
Fiscal year	Principal	Interest	Swap, net	Total
2007	\$ 97,405	136,045	(937)	232,513
2008	193,715	160,508	(937)	353,286
2009	150,630	150,575	(937)	300,268
2010	215,550	140,115	(937)	354,728
2011	139,375	130,123	(937)	268,561
2012 - 2016	949,825	502,686	(4,552)	1,447,959
2017 - 2021	815,585	284,013	(7,364)	1,092,234
2022 - 2026	513,705	148,414	(3,718)	658,401
2027 - 2031	337,455	54,177	(1,107)	390,525
2032 - 2036	<u>91,665</u>	<u>10,081</u>	<u>(41)</u>	<u>101,705</u>
Total minimum lease payment	<u>\$ 3,504,910</u>	<u>1,716,737</u>	<u>(21,467)</u>	5,200,180
Less amount representing interest				(1,716,737)
Add swap, net				<u>21,467</u>
Present value of net minimum lease payments				3,504,910
Less unamortized original issue discount, net				<u>(100,573)</u>
Carrying amount of obligations				<u>\$ 3,404,337</u>

Interest rates on DASNY obligations range from 2.25 % to 7.5%.

During 2006, DASNY issued bonds for new construction with a par value of \$322,015,000 and original issue premium of \$12,538,362 on behalf of the University.

At June 30, 2006 and 2005, \$1,296,995,000 and \$1,556,095,000, respectively, of bonds outstanding are considered defeased.

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As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, at various times, DASNY issued certain variable interest rate bonds, and concurrently entered into 46 separate pay-fixed, receive-variable interest swaps with four counterparties. During 2005, DASNY issued fixed rate bonds and concurrently entered into three separate pay-variable, receive-fixed rate swaps with three counterparties, for which swap payments commence at future dates. The swaps are undertaken as a part of the State’s overall debt management program. The notional amounts of the swaps match the principal amounts of the associated debt. The swap was entered into at the same time the bonds were issued. The swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated “bond payable” category. The terms, including the fair values and credit ratings of the outstanding swaps at June 30, 2006, were as follows (in thousands):

Pay-Fixed, Receive-Variable Swaps							
Counterparty	Notional Amount	Termination Date	Swap Fixed Rate Paid	Variable Swap Rate Received ^a	Swap Fair Value	Counterparty Credit Rating ^b	Swap Insured
<i>City University System Consolidated Revenue Bonds, Series 2003</i>							
Citibank	\$ 350,000	7/1/14 to 7/1/31	3.36%	65% of LIBOR	\$ 8,714	Aa1/AA/AA+	Yes
Lehman Brothers	203,200	7/1/14 to 7/1/32	3.36%	65% of LIBOR	5,065	Aaa/AAA/AAA	Yes
Merrill Lynch	203,200	7/1/14 to 7/1/33	3.36%	65% of LIBOR	5,065	Aa3/A+/AA-	Yes
UBS	203,200	7/1/14 to 7/1/34	3.36%	65% of LIBOR	5,065	Aa2/AA+/AA+	Yes
<i>City University System Consolidated Revenue Bonds, Series 2005B</i>							
Lehman Brothers	21,100	7/1/25	3.17%	65% of LIBOR	1,163	Aaa/AAA/AAA	Yes
<i>PIT Education 2005C</i>							
Lehman Brothers	22,160	3/15/32	3.09%	65% of LIBOR	1,663	Aaa/AAA/AAA	No
Total Pay-Fixed	\$ 1,002,860				\$ 26,735		
Future Pay-Variable, Receive-Fixed Swaps							
Counterparty	Notional Amount	Termination Date	Swap Fixed Rate received	Variable Swap Rate paid ^c	Swap Fair Value	Counterparty Credit Rating ^b	Swap Insured
<i>City University System Consolidated Revenue Bonds, Series 2005A</i>							
Citibank	\$ 108,260	7/1/24	4.44%	BMA	\$ (660)	Aa1/AA/AA+	No
<i>PIT Education 2005B</i>							
JP Morgan	45,550	3/15/30	4.34%	BMA	714	Aa2/AA-/AA-	No
UBS	45,550	3/15/30	4.34%	BMA	714	Aa2/AA+/AA+	No
Total Pay-Variable	\$ 199,360				\$ 768		
Total	\$ 1,202,220				\$ 27,503		
^a London Interbank Offered Rate ^b Moody's/S&P/Fitch, respectively ^c Bond Market Association Municipal Swap Index							

At June 30, 2006, the swaps had a fair value of \$27,503,000. Interest rates have changed since the swaps were entered into, the pay-fixed, receive-variable swaps had a fair value of \$26,735,000 (the fixed swap payment rate is lower than current comparable fixed rates), and the pay-variable, receive-fixed swaps had a fair value of \$768,000 (the fixed swaps receive rate is higher than current comparable fixed rates). The fair values of pay-fixed, receive-variable rate swaps generally move in the opposite direction from the fair values of pay-variable, receive-fixed rate swaps, mitigating exposure in the swap portfolio resulting from

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changes in interest rates. The fair values were estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk. At June 30, 2006, the swap agreements were not exposed to credit risk on those swaps with negative fair values. However, should interest rate change and the fair values of those swaps become positive, then the swap agreements would be exposed to credit risk in the amount of the swaps' fair value.

For those swaps with a positive fair value, the swaps fair value represented the credit exposure to the counterparties at June 30, 2006. The swap agreements entered into during 2005 contain set-off provisions and amended existing swap agreements with those four counterparties to include such set-off provisions. Under the terms of these agreements, should an agreement terminate, close-out set-off provisions permit all outstanding transactions with the related counterparty to terminate and net the transaction's fair values so that a single sum will be owed by, or owed to, DASNY. Should the counterparties fail to perform according to the terms of the swap contracts, at June 30, 2006, the maximum possible loss equivalent to the related swaps' net positive value, assuming set-off, of \$27,503,000. The set-off provisions currently cover 4 out of the 5 counterparties.

The guidelines set forth by DASNY require that the counterparties have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories and rating which are obtained from any other nationally recognized statistical rating agency for such counterparty shall also be within the three highest investment grade categories, or the payment obligations of the counterparty shall be unconditionally guaranteed by an entity with such credit ratings.

To further mitigate credit risk, all swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of 102% of the swap termination value payable by the counterparty, at any time that the counterparty does not have at least one rating in the second highest rating category or any of the ratings assigned to the counterparty are below the three highest rating categories. Collateral on all swaps is to be held by a third-party custodian and be in the form of direct obligations or obligations the principal and interest on which are guaranteed by the United States of America, or other securities permitted by law and agreed upon in writing by DASNY and the counterparty.

Interest Rate Risk. The pay-variable, receive-fixed interest rate swaps increase the exposure to interest rate risk. The variable interest rate to the counterparties is based on the Bond Market Association Municipal Swap Index (BMA). As BMA increases, the net payment on the swaps increases.

Basis Risk. The pay-fixed, receive-variable swap agreements are exposed to basis risk. DASNY is paying a fixed rate of interest to the counterparties and the counterparties are paying a variable rate representing 65% of the one-month LIBOR rate. The amount of the variable rate swap payments received from the counterparties does not necessarily exactly equal the actual variable rate payable to the bondholders. Should the relationship between LIBOR and actual variable rate payments converge, the expected cost savings may not materialize.

Termination Risk. The swap contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, default on any other debt in an

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aggregate amount greater than the agreed-upon thresholds and bankruptcy. The schedule to the Master Agreement includes additional termination events, providing that the swap may be terminated if either the downgrade of the applicable state supported bonds or the debt of the counterparty falls below certain levels. DASNY or the counterparty may terminate any of the swaps if the other party fails to perform under the term of the contract. If the counterparty to the swap defaults or if the swap is terminated, the related variable rate bonds would no longer be hedged and DASNY would no longer effectively be paying a synthetic fixed rate with respect to those bonds. A termination of the swap agreement may also result in DASNY making or receiving a termination payment. If at the time of termination, the swap has a negative fair value, DASNY would incur a loss and would be required to settle with the other party at the swap's fair value. If the swap has a positive value at the time of termination, DASNY would realize a gain that the other party would be required to pay.

Rollover Risk. Since the terms of the individual swaps correlate to match the final maturity of the associated debt, the authority is not exposed to rollover risk.

Certificate of Participation Agreements

The University has entered into various arrangements for the acquisition/rehabilitation of capital assets through the issuance of certificates of participation. The certificates are issued through a trustee and the University is responsible for payments to the trustee in an amount equal to the interest and principal payments made by the trustee to the certificate holders. New York State holds title to the capital assets financed with certificates of participation. Title to equipment financed with certificates of participation is held by the trustee as security for the certificate holders until such time as the certificates are fully paid. Payments under these obligations are funded by New York State appropriations.

The following is a summary of future minimum lease payments required under these certificates of participation at June 30, 2006 (in thousands):

Certificate of participation agreements			
Fiscal year	Principal	Interest	Total
2007	\$ 16,700	3,245	19,945
2008	17,565	2,308	19,873
2009	18,585	1,440	20,025
2010	<u>19,510</u>	<u>488</u>	<u>19,998</u>
Total minimum lease payment	<u>\$ 72,360</u>	<u>7,481</u>	79,841
Less amount representing interest			<u>(7,481)</u>
Present value of net minimum lease payments			72,360
Less unamortized original issue premium, net			<u>187</u>
Carrying amount of obligations			<u>\$ 72,547</u>

Interest rates on certificates of participation range from 4.90% to 5.15%.

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Other Capital Lease Agreements

The University has entered into a capital lease agreement for the renovation of existing space at a building occupied by the Hunter College School of Social Work. The following is a summary of future minimum lease payments required under this capital lease at June 30, 2006 (in thousands):

Hunter capital lease			
Fiscal year	Principal	Interest	Total
2007	\$ 364	334	698
2008	402	296	698
2009	444	254	698
2010	491	207	698
2011	542	156	698
2012 - 2016	<u>1,259</u>	<u>137</u>	<u>1,396</u>
Total minimum lease payment	<u>\$ 3,502</u>	<u>1,384</u>	4,886
Less amount representing interest			<u>(1,384)</u>
Carrying amount of obligations			<u>\$ 3,502</u>

The interest rate for this capital lease obligation is 10%.

Line of Credit

In March 2006, the Company received a revolving credit loan for \$12 million, which converts to a ten-year term loan after six months. The loan was obtained to finance the construction of certain improvements for leased space at 230 West 41st Street. At June 30, 2006, the Company received \$7,016,500 in loan proceeds of which \$5,285,107 was used to pay for tenant improvements, interest expenses and legal fees. The remaining loan proceeds are recorded as cash on the consolidated financial statements.

Compensated Absences

Employees accrue vacation leave based upon time employed, with the maximum accumulation generally ranging from 45 to 50 days. The recorded liability for accrued vacation leave, including the University's share of fringe benefits, is approximately \$62.1 million and \$57.9 million at June 30, 2006 and 2005, respectively. Employees also earn sick leave credits, which are considered termination payments and may be accumulated up to a maximum of 160 days. Accumulated sick leave credits are payable up to 50% of the accumulated amount as of the date of retirement. The recorded liability for sick leave credits is approximately \$41.2 million and \$42.4 million at June 30, 2006 and 2005, respectively.

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(8) Deposits Held by Bond Trustees and Amounts Held by the Dormitory Authority of the State of New York

Deposits held by bond trustees include bond proceeds not yet expended for construction projects and related accumulated investment income. Bond proceeds and interest income in excess of construction costs are restricted for future projects or debt service. In addition, deposits held by bond trustees include reserves required for debt service and replacement under lease agreements, together with earnings on such funds.

Amounts held by DASNY represent funds which have been remitted to DASNY to be used for rehabilitation of capital assets or held for general operating purpose.

In accordance with GASB Statement No. 40, deposits held by bond trustee and amounts held by DASNY by type and maturities, at June 30, 2006, are as follows (in thousands):

Deposits held by trustee and Amounts held by DASNY				
Type	Fair Value	% Total	Less than 1 Yr	Rating
Cash and cash equivalents	\$ 99,135	13%	\$ 99,135	
U.S. Treasury notes and bonds	393,100	53%	393,100	
U.S. Treasury bills	242,191	33%	242,191	
U.S. Agency mortgage-backed securities	8,422	1%	8,422	AAA
Total	\$ 742,848	100%	\$ 742,848	

Deposits held by bond trustee and amounts held by DASNY by type and maturities, at June 30, 2005, are as follows (in thousands):

Deposits held by trustee and Amounts held by DASNY				
Type	Fair Value	% Total	Less than 1 Yr	Rating
Cash and cash equivalents	\$ 199,425	30%	\$ 199,425	
U.S. Treasury notes and bonds	167,129	26%	167,129	
U. S. Treasury bills	182,114	28%	182,114	
U.S. Treasury strips	71,292	11%	71,292	
U.S. Agency mortgage-backed securities	35,455	5%	35,455	AAA
Total	\$ 655,415	100%	\$ 655,415	

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Deposits held by bond trustee and amounts held by DASNY are subject to the following risks:

Custodial Credit Risk

Custodial credit risk for deposits held by bond trustee and amounts held by DASNY is the risk that in the event of a bank failure or counterparty failure, the University will not be able to recover the value of its cash and investments in the possession of an outside party. Of the \$743,000,000 and \$655,000,000 in deposits held by bond trustee and amounts held by DASNY at June 30, 2006 and 2005, respectively, \$731,000,000 and \$643,000,000 at June 30, 2006 and 2005, respectively, are held by DASNY or the bond trustee, not in the University's name.

Credit Risk

For an investment security, credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Under investment agreements, deposits held by bond trustee and amounts held by DASNY are invested with financial institutions at a fixed contract rate of interest. Because the security is essentially a written contract, there is no rating available for such an instrument; however, at the time the agreements are entered into, the underlying providers are generally rated in at least the second highest rating category by at least one of the nationally recognized rating organizations in accordance with established investment policy and guidelines.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. During 2006 and 2005, deposits held by bond trustee and amounts held by DASNY were not exposed to concentration credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy for deposits held by bond trustee or amounts held by DASNY that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments consist of obligations of the United States Government and are reported at fair value with maturities of one year or less.

(9) Pension Plans

The University participates in three pension plans for its employees: the New York City Employees' Retirement System (ERS); the Teachers' Retirement System of the City of New York Qualified Pension Plan (TRS); and Teachers' Insurance and Annuity Association — College Retirement Equities Fund (TIAA-CREF). ERS and TRS are cost-sharing, multiple-employer defined benefit plans administered by the City of New York. TIAA-CREF is a privately operated, multi-employer defined contribution retirement plan. TIAA-CREF obligations of employers and employees to contribute and of employees to receive benefits are governed by the New York State Education Law and City laws.

ERS and TRS provide retirement benefits, as well as death and disability benefits. These systems function in accordance with existing State of New York statutes and City laws.

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ERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by writing to ERS at 335 Adams Street, Brooklyn, New York 11201, or TRS at 55 Water Street, New York, New York 10041.

TIAA-CREF provides retirement and death benefits for or on behalf of those full-time professional employees and faculty members electing to participate in this optional retirement program.

Funding Policy

Employer contributions to ERS and TRS are determined by the City of New York based on actuarially-determined rates that, expressed as a percentage of annualized covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Member contributions are established by law. Employees who joined ERS and TRS on or after July 1, 1977 are mandated to contribute 3% of their annual wages to the plans. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier.

Employer and employee contribution requirements to TIAA-CREF are determined by the New York State Retirement and Social Security Law. Participating University employees contribute 1.5% for tiers one through four and 3% for tier five of salary on an after-tax basis. Employer contributions range from 10.5% to 13.5% for tiers one through four, depending upon the employee's compensation, and 8% to 10% of salary for tier five, depending upon the employee's years of service. Employee contributions for 2006 and 2005 amounted to approximately \$56.5 million and \$50.8 million, respectively.

The required University contributions for the current year and the two preceding years were (in thousands):

Pension plans					
Year		ERS	TRS	TIAA-CREF	Total
2006	\$	18,688	21,007	73,324	113,019
2005		15,362	20,921	62,571	98,854
2004		5,945	15,964	59,043	80,952

The University's contributions made to the systems were equal to 100% of the contributions required for each year.

(10) Postretirement Benefits

The University provides health insurance and survivor benefits coverage to retired employees and their survivors. Substantially all University employees may become eligible for these benefits if they reach normal retirement age while working for the University. The University recognizes the cost of providing postretirement health insurance and survivor benefits coverage on a pay-as-you-go basis. For the years ended June 30, 2006 and 2005, the total cost of these benefits was approximately \$30.2 million and \$27.4 million, respectively. These payments are made by the Professional Staff Congress Welfare Fund and DC37 / Association of Federal, State, County, Municipal Employees Welfare Fund.

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(11) Commitments

The University has entered into contracts for the construction and improvement of various capital assets. At June 30, 2006 and 2005, these outstanding contractual commitments were approximately \$263.2 million and \$131.3 million, respectively.

The University is also committed under various operating leases covering real property and equipment. The following is a summary of the future minimum rental commitments under noncancelable real property and equipment operating leases with terms exceeding one year at June 30, 2006 (in thousands):

Contractual commitments	
Fiscal year	Principal
2007	\$ 33,178
2008	34,398
2009	34,815
2010	36,387
2011	33,549
2012 - 2016	118,192
2017 - 2021	17,217
2022 - 2026	989
Total	<u>\$ 308,725</u>

For the years ended June 30, 2006 and 2005, rent expense, including escalations of \$10.6 million and \$5.9 million, was approximately \$42.1 million and \$34.1 million, respectively.

(12) Contingent Liabilities

The University disburses Pell Grant funds to students eligible for Federal financial assistance. Students' eligibility details are then submitted to the U.S. Department of Education (ED) for validation. Differences between the Pell Grant disbursements made by the University and the final amounts validated by ED exist for each of the years from 1974 to 1985. The University is currently negotiating with ED to resolve these differences, which approximate \$7,000,000. Management believes the University will continue to aggressively defend, negotiate and, if appropriate, litigate in order to achieve satisfactory resolution of this matter. In the opinion of the University, the ultimate disposition of these matters will not have a material adverse effect on the University's financial statements.

(13) Litigation and Risk Financing

The University is involved with claims and other legal actions arising in the normal course of its activities, including several currently in litigation. Pursuant to the New York State Education Law, the State or City of New York (as applicable) shall save harmless and indemnify the University, members of its Board, and any duly appointed staff member against any claim, demand, suit, or judgment arising from such person performing his or her duties on behalf of the University. Further, any judgments rendered against such

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individuals will be paid from funds appropriated by the Legislature, which are separate and apart from the University's operating funds. While the final outcome of the matters referred to above cannot be determined at this time, management is of the opinion that the ultimate liability, if any, will not have a material effect on the financial position of the University.

Liabilities for claims are accrued when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

The University is uninsured for most categories of risk of loss.

(14) Financial Dependency

Appropriations from the State of New York and the City of New York are significant sources of revenue to the University. Accordingly, the University is economically dependent on these appropriations to carry on its operations.

(15) City College Dormitory

During 2005, the University entered into a support agreement with DASNY in connection with the issuance of CUNY Student Housing Project Insured Revenue Bond, Series 2005. The bonds having a par value of \$63,050,000 and premium of \$5,955,235 were issued to fund a non-recourse loan from DASNY to Educational Housing Services, Inc. to finance construction of a student residence building on the campus of City College of the University. Under the terms of the support agreement, the University has agreed to unconditionally guarantee the loan and transfer to the trustee amounts required to replenish deficiencies related to debt service payments and debt service reserve funds. The obligations of CUNY hereunder shall commence upon substantial completion of the project and shall terminate upon the payment or legal defeasance of all of the series 2005 bonds.

(16) Subsequent Event

On July 12, 2006, DASNY issued refunding bonds with a par value of \$35,225,000 and original issue premium of \$1,274,583 on behalf of the University.

(17) College Foundations

The University's college foundations are made up of not-for-profit corporations, which support both academic and general needs of the colleges and their students. Their activities are funded through donor contributions, special fund-raising events, and earnings on investments.

The accounting policies of the foundations conform to accounting principles generally accepted in the United States of America as applicable to colleges and universities. The foundations' financial statements are based on applicable FASB pronouncements.

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Summary of Significant Accounting Policies

The foundations follow FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Statement of Not-for-profit Organizations*. Under FASB Statement No. 116, contributions received, including unconditional promises to give, are recognized at fair value in the period received. Under FASB Statement No. 117, foundations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The classes are defined as follows:

Permanently Restricted

Net assets resulting from contributions whose use is limited by donor imposed restrictions.

Temporarily Restricted Net Assets

Net assets resulting from contributions and other inflows of assets, whose use is limited by restrictions that expire either by the passage of time or by fulfillment of the restriction. When stipulations end or are fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities.

Unrestricted Net Assets

Net assets that are neither permanently nor temporarily restricted.

Split-Interest Agreements

Several of the foundations have received contributions from donors in exchange for a promise by the foundations to pay a fixed amount to the donor or other individuals over a specified period of time (normally the donor's or other beneficiary's life) and are recognized at fair value when received. The annuity payment liability is recognized at the present value of future cash payments expected to be paid. The net of these two amounts is recorded as contribution income.

Charitable Remainder Trusts

Several of the foundations have received charitable remainder trusts of various types which are received by the college during the lifetime of the grantor, and carry with them the obligation to pay the grantor an annuity during his or her lifetime. Upon the death of the grantor, the trust is terminated, and the remaining value becomes the property of the foundation.

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Investments

Investments are carried at fair value with changes in their value of investments recorded in the statements of activities. Investments at June 30, 2006 and 2005 consist of:

Investment type	2006	2005
Cash and cash equivalents	\$ 12,337,988	16,284,423
Certificates of deposit	109,361	212,811
U.S. Treasury bills	28,221,864	17,267,025
U.S. Government bonds	3,030,189	—
Corporate bonds	17,118,709	18,609,079
Mutual funds	90,127,049	90,195,690
Equities	80,997,269	64,512,865
Alternative investments	9,006,726	3,352,342
CUNY investment pool	2,131,271	1,547,229
Other	414,527	25,994
Total investments	\$ 243,494,953	212,007,458

Contributions Receivable

Unconditional promises to give are recorded as contributions receivable, and in most cases are discounted over the payment period using the applicable discount rate in effect at the time of the contribution. At June 30, 2006 and 2005, contributions receivable consisted of:

Contributions receivable	2006	2005
Contributions receivable	\$ 61,121,646	56,242,254
Less discount to present value	8,098,992	8,704,025
Less allowance for doubtful accounts	6,182,161	3,123,203
Contributions receivable, net	\$ 46,840,493	44,415,026

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June 30, 2006 and 2005

Temporarily Restricted Net Assets

At June 30, 2006 and 2005, temporarily restricted net assets are available for the following purposes:

Temporarily restricted net assets	2006	2005
Student education and welfare	\$ 117,217,641	86,006,666
Facility renovations	753,870	1,460,641
Obligations under charitable remainder trusts	572,499	444,471
Other	<u>432,346</u>	<u>8,665,665</u>
Total temporarily restricted net assets	<u>\$ 118,976,356</u>	<u>96,577,443</u>

Permanently Restricted Net Assets

At June 30, 2006 and 2005, permanently restricted net assets consist of the following:

Permanently restricted net assets	2006	2005
Student education and welfare	\$ 148,695,228	135,342,137
Other	<u>4,771,509</u>	<u>4,789,555</u>
Total permanently restricted net assets	<u>\$ 153,466,737</u>	<u>140,131,692</u>

The student education and welfare category includes scholarships, awards and college programs, while the other programs category represents funds restricted for college and community programs.

The following tables include the financial information for the colleges' foundations as of and for the years ended June 30, 2006 and 2005:

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June 30, 2006 and 2005

Combining schedules of financial position – College Foundations:

June 30, 2006

	<u>Baruch</u>	<u>Brooklyn</u>	<u>City</u>	<u>Graduate</u>	<u>Hunter</u>	<u>Queens</u>	<u>Other Senior *</u>	<u>Total Senior</u>	<u>Total Community **</u>	<u>Grand Total</u>
Assets:										
Cash and cash equivalents	\$ 233,351	2,087,094	1,155,346	2,633,227	1,439,188	2,587,231	3,622,578	13,758,015	1,765,616	15,523,631
Accounts and other receivables, net	—	15,264	317,504	431,864	17,599	26,288	166,945	975,464	269,975	1,245,439
Prepaid expenses and other assets	106,983	56,671	1,608	—	18,212	232,098	22,167	437,739	146,496	584,235
Contributions receivable, net	19,863,635	7,029,861	4,570,000	1,339,088	2,740,148	10,009,901	825,879	46,378,512	461,981	46,840,493
Investments	73,925,752	50,266,377	31,864,100	22,598,005	25,329,443	19,743,142	11,412,179	235,138,998	8,355,955	243,494,953
Beneficial interest in remainder trusts	6,039,483	956,022	—	—	—	100,000	77,864	7,173,369	—	7,173,369
Remainder interest in real property	—	—	—	—	264,000	—	—	264,000	—	264,000
Capital assets, net	1,287,848	215,320	31,125	—	—	2,584,244	52,037	4,170,574	—	4,170,574
Total assets	\$ 101,457,052	60,626,609	37,939,683	27,002,184	29,808,590	35,282,904	16,179,649	308,296,671	11,000,023	319,296,694
Liabilities:										
Accounts payable and accrued expenses	\$ 610,150	83,462	196,951	145,834	101,126	352,073	206,037	1,695,633	126,122	1,821,755
Annuities payable	1,854,969	529,320	364,733	20,990	192,033	—	43,087	3,005,132	—	3,005,132
Due to affiliates	—	—	—	—	—	—	6,200	6,200	321,705	327,905
Deferred revenue	75,495	—	—	—	—	—	—	75,495	101,807	177,302
Refundable matching grant	—	—	—	—	500,000	—	—	500,000	—	500,000
Total liabilities	2,540,614	612,782	561,684	166,824	793,159	352,073	255,324	5,282,460	549,634	5,832,094
Net assets:										
Unrestricted	11,677,524	5,222,280	2,219,537	1,280,019	1,371,993	8,712,906	5,697,644	36,181,903	4,839,604	41,021,507
Temporarily restricted	48,781,597	18,986,292	9,836,524	8,034,905	13,353,834	10,957,934	5,131,401	115,082,487	3,893,869	118,976,356
Permanently restricted	38,457,317	35,805,255	25,321,938	17,520,436	14,289,604	15,259,991	5,095,280	151,749,821	1,716,916	153,466,737
Total net assets	98,916,438	60,013,827	37,377,999	26,835,360	29,015,431	34,930,831	15,924,325	303,014,211	10,450,389	313,464,600
Total liabilities and net assets	\$ 101,457,052	60,626,609	37,939,683	27,002,184	29,808,590	35,282,904	16,179,649	308,296,671	11,000,023	319,296,694

June 30, 2005

	<u>Baruch</u>	<u>Brooklyn</u>	<u>City</u>	<u>Graduate</u>	<u>Hunter</u>	<u>Queens</u>	<u>Other Senior</u>	<u>Total Senior</u>	<u>Total Community</u>	<u>Grand Total</u>
Assets:										
Cash and cash equivalents	\$ 39,341	1,003,734	470,639	1,662,364	1,774,313	2,010,254	4,233,139	11,193,784	1,446,839	12,640,623
Accounts and other receivables, net	—	19,217	271,137	711,594	34,886	26,130	93,388	1,156,352	302,263	1,458,615
Prepaid expenses and other assets	243,162	60,170	1,808	—	20,731	57,254	58,565	441,690	95,834	537,524
Contributions receivable, net	20,226,541	5,326,737	1,588,000	2,188,701	2,383,853	11,644,452	564,267	43,922,551	492,475	44,415,026
Investments	63,700,701	44,673,967	30,325,845	19,462,112	20,437,727	16,224,362	10,085,078	204,909,792	7,097,666	212,007,458
Beneficial interest in remainder trusts	—	1,017,417	—	—	—	126,531	77,358	1,221,306	—	1,221,306
Remainder interest in real property	—	—	—	—	257,644	—	—	257,644	—	257,644
Capital assets, net	1,108,948	197,720	27,851	—	—	2,908,074	75,390	4,317,983	—	4,317,983
Total assets	\$ 85,318,693	52,298,962	32,685,280	24,024,771	24,909,154	32,997,057	15,187,185	267,421,102	9,435,077	276,856,179
Liabilities:										
Accounts payable and accrued expenses	\$ 798,339	83,567	137,946	76,450	200,310	211,856	151,909	1,660,377	103,113	1,763,490
Annuities payable	—	524,218	246,924	17,103	209,927	—	7,139	1,005,311	—	1,005,311
Due to affiliates	—	—	—	—	—	—	—	—	280,515	280,515
Deferred revenue	98,793	—	—	—	—	—	—	98,793	78,586	177,379
Refundable matching grant	—	—	—	—	500,000	—	—	500,000	—	500,000
Total liabilities	897,132	607,785	384,870	93,553	910,237	211,856	159,048	3,264,481	462,214	3,726,695
Net assets:										
Unrestricted	9,475,805	4,014,911	2,870,065	1,052,980	1,372,919	7,489,068	6,217,416	32,493,164	3,927,185	36,420,349
Temporarily restricted	41,045,234	14,486,133	6,267,171	5,888,148	10,966,938	10,467,757	3,972,769	93,094,150	3,483,293	96,577,443
Permanently restricted	33,900,522	33,190,133	23,163,174	16,990,090	11,659,060	14,828,376	4,837,952	138,569,307	1,562,385	140,131,692
Total net assets	84,421,561	51,691,177	32,300,410	23,931,218	23,998,917	32,785,201	15,028,137	264,156,621	8,972,863	273,129,484
Total liabilities and net assets	\$ 85,318,693	52,298,962	32,685,280	24,024,771	24,909,154	32,997,057	15,187,185	267,421,102	9,435,077	276,856,179

* Other Senior refers to CUNY Law School at Queens College, College of Staten Island, Lehman College, John Jay College of Criminal Justice, New York City College of Technology and Medgar Evers College

** See note 1 for a listing of all community college foundations.

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June 30, 2006 and 2005

Combining schedules of activities – College Foundations:

June 30, 2006

	Baruch				Brooklyn				City			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:												
Gifts, grants and contributions	\$ 7,111,259	9,648,954	4,556,795	21,317,008	982,945	5,559,881	2,566,051	9,108,877	1,131,458	4,173,521	2,303,318	7,608,297
Special events	980,650	—	—	980,650	348,660	50,000	—	398,660	—	—	—	—
Program service revenues	—	—	—	—	—	—	—	—	—	—	—	—
Investment income	856,515	4,601,695	—	5,458,210	2,724,591	1,541,957	(47,471)	4,219,077	166,781	181,001	882,928	1,230,710
Net realized and unrealized gains (losses) on investment	—	—	—	—	—	—	—	—	(95,959)	(82,809)	172,367	(6,401)
Change in value of split interest agreement:	—	29,108	—	29,108	(43,607)	(62,628)	10,667	(95,568)	—	(24,920)	—	(24,920)
Other income	122,738	—	—	122,738	—	—	—	—	—	—	85	85
Donor agreed restipulation of restriction	—	—	—	—	—	—	—	—	—	—	—	—
Net assets released from restrictions	6,543,394	(6,543,394)	—	—	2,503,176	(2,503,176)	—	—	1,877,374	(677,440)	(1,199,934)	—
Total revenues, gains and other support	15,614,556	7,736,363	4,556,795	27,907,714	6,515,765	4,586,034	2,529,247	13,631,046	3,079,654	3,569,353	2,158,764	8,807,771
Expenses:												
Program services	10,543,320	—	—	10,543,320	3,931,120	—	—	3,931,120	2,476,425	—	—	2,476,425
Management and general	738,733	—	—	738,733	679,507	—	—	679,507	1,253,757	—	—	1,253,757
Fundraising	2,130,784	—	—	2,130,784	697,769	—	—	697,769	—	—	—	—
Total expenses	13,412,837	—	—	13,412,837	5,308,396	—	—	5,308,396	3,730,182	—	—	3,730,182
Change in net assets before reclassifications and adjustments	2,201,719	7,736,363	4,556,795	14,494,877	1,207,369	4,586,034	2,529,247	8,322,650	(650,528)	3,569,353	2,158,764	5,077,589
Reclassifications and adjustments	—	—	—	—	—	(85,875)	85,875	—	—	—	—	—
Change in net assets	2,201,719	7,736,363	4,556,795	14,494,877	1,207,369	4,500,159	2,615,122	8,322,650	(650,528)	3,569,353	2,158,764	5,077,589
Net assets at beginning of year	9,475,805	41,045,234	33,900,522	84,421,561	4,014,911	14,486,133	33,190,133	51,691,177	2,870,065	6,267,171	23,163,174	32,300,410
Net assets at end of year	\$ 11,677,524	48,781,597	38,457,317	98,916,438	5,222,280	18,986,292	35,805,255	60,013,827	2,219,537	9,836,524	25,321,938	37,377,999

June 30, 2005

	Baruch				Brooklyn				City			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:												
Gifts, grants and contributions	\$ 8,822,880	2,406,685	3,263,569	14,493,134	1,252,475	1,527,200	774,017	3,553,692	969,168	2,186,415	780,874	3,936,457
Special events	589,920	—	—	589,920	329,782	—	—	329,782	—	—	—	—
Program service revenues	—	—	—	—	—	—	—	—	—	—	—	—
Investment income	286,942	3,977,624	—	4,264,566	2,075,142	1,341,686	(4,989)	3,411,839	170,219	120,968	778,680	1,069,867
Net realized and unrealized gains (losses) on investment	—	—	—	—	—	—	—	—	47,491	2,568	684,031	734,090
Change in value of split interest agreement:	—	—	—	—	(27,740)	33,309	(19,466)	(13,897)	—	6,559	—	6,559
Other income	—	—	—	—	—	—	—	—	—	—	—	—
Donor agreed restipulation of restriction	—	—	—	—	—	—	—	—	—	—	—	—
Net assets released from restrictions	6,303,131	(6,303,131)	—	—	2,485,242	(2,485,242)	—	—	1,801,991	(911,909)	(890,082)	—
Total revenues, gains (losses) and other support	16,002,873	81,178	3,263,569	19,347,620	6,114,901	416,953	749,562	7,281,416	2,988,869	1,404,601	1,353,503	5,746,973
Expenses:												
Program services	9,831,871	—	—	9,831,871	3,990,023	—	—	3,990,023	2,375,984	—	—	2,375,984
Management and general	564,381	—	—	564,381	648,086	—	—	648,086	1,003,549	—	—	1,003,549
Fundraising	1,877,134	—	—	1,877,134	1,001,988	—	—	1,001,988	—	—	—	—
Total expenses	12,273,386	—	—	12,273,386	5,640,097	—	—	5,640,097	3,379,533	—	—	3,379,533
Change in net assets before reclassifications and adjustments	3,729,487	81,178	3,263,569	7,074,234	474,804	416,953	749,562	1,641,319	(390,664)	1,404,601	1,353,503	2,367,440
Reclassifications and adjustments	—	—	—	—	(191,670)	(820,110)	1,011,780	—	—	—	—	—
Change in net assets	3,729,487	81,178	3,263,569	7,074,234	283,134	(403,157)	1,761,342	1,641,319	(390,664)	1,404,601	1,353,503	2,367,440
Net assets at beginning of year	5,746,318	40,964,056	30,636,953	77,347,327	3,731,777	14,889,290	31,428,791	50,049,858	3,260,729	4,862,570	21,809,671	29,932,970
Net assets at end of year	\$ 9,475,805	41,045,234	33,900,522	84,421,561	4,014,911	14,486,133	33,190,133	51,691,177	2,870,065	6,267,171	23,163,174	32,300,410

* Other Senior refers to CUNY Law School at Queens College, College of Staten Island, Lehman College, John Jay College of Criminal Justice, Medgar Evers and New York City College of Technology

** See note 1 for a listing of all community college foundation

THE CITY UNIVERSITY OF NEW YORK

Notes to Financial Statements

June 30, 2006 and 2005

Combining schedules of activities – College Foundations:

June 30, 2006

	Graduate				Hunter				Queens			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:												
Gifts, grants and contributions	\$ 242,129	2,330,044	530,346	3,102,519	1,199,284	2,634,840	2,467,241	6,301,365	1,038,545	2,935,873	431,615	4,406,033
Special events	501,540	—	—	501,540	—	—	—	—	—	—	—	—
Program service revenues	—	—	—	—	—	—	—	—	—	—	—	—
Investment income	144,171	720,504	—	864,675	433,152	1,797,479	—	2,230,631	874,754	345,268	—	1,220,022
Net realized and unrealized gains (losses) on investment	118,935	1,079,413	—	1,198,348	—	—	—	—	809,441	—	—	809,441
Change in value of split interest agreement	—	—	—	—	—	—	—	—	—	—	—	—
Other income	—	2,592	—	2,592	—	—	—	—	152,610	—	—	152,610
Donor agreed restipulation of restrictor	—	—	—	—	(93,661)	(69,642)	163,303	—	—	—	—	—
Net assets released from restrictions	1,985,796	(1,985,796)	—	—	1,975,781	(1,975,781)	—	—	2,790,964	(2,790,964)	—	—
Total revenues, gains and other support	2,992,571	2,146,757	530,346	5,669,674	3,514,556	2,386,896	2,630,544	8,531,996	5,666,314	490,177	431,615	6,588,106
Expenses:												
Program services	1,983,655	—	—	1,983,655	2,536,451	—	—	2,536,451	3,438,628	—	—	3,438,628
Management and general	187,671	—	—	187,671	397,716	—	—	397,716	266,598	—	—	266,598
Fundraising	594,206	—	—	594,206	581,315	—	—	581,315	737,250	—	—	737,250
Total expenses	2,765,532	—	—	2,765,532	3,515,482	—	—	3,515,482	4,442,476	—	—	4,442,476
Change in net assets before reclassifications and adjustments	227,039	2,146,757	530,346	2,904,142	(926)	2,386,896	2,630,544	5,016,514	1,223,838	490,177	431,615	2,145,630
Reclassifications and adjustments	—	—	—	—	—	—	—	—	—	—	—	—
Change in net assets	227,039	2,146,757	530,346	2,904,142	(926)	2,386,896	2,630,544	5,016,514	1,223,838	490,177	431,615	2,145,630
Net assets at beginning of year	1,052,980	5,888,148	16,990,090	23,931,218	1,372,919	10,966,938	11,659,060	23,998,917	7,489,068	10,467,757	14,828,376	32,785,201
Net assets at end of year	\$ 1,280,019	8,034,905	17,520,436	26,835,360	1,371,993	13,353,834	14,289,604	29,015,431	8,712,906	10,957,934	15,259,991	34,930,831

June 30, 2005

	Graduate				Hunter				Queens			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:												
Gifts, grants and contributions	\$ 737,930	2,415,201	2,372,997	5,526,128	1,469,777	2,298,353	1,310,806	5,078,936	2,442,848	7,771,916	4,428,696	14,643,460
Special events	—	—	—	—	—	—	—	—	—	—	—	—
Program service revenues	—	—	—	—	—	—	—	—	—	—	—	—
Investment income	96,700	535,195	—	631,895	94,547	167,138	—	261,685	92,513	347,831	—	440,344
Net realized and unrealized gains (losses) on investment	142,955	1,201,490	—	1,344,445	580,786	1,026,703	—	1,607,489	848,145	—	—	848,145
Change in value of split interest agreement	—	—	—	—	—	—	—	—	—	—	—	—
Other income	—	—	—	—	—	—	—	—	122,078	—	—	122,078
Donor agreed restipulation of restrictor	—	—	—	—	150	(10,150)	10,000	—	—	—	—	—
Net assets released from restrictions	1,590,770	(1,590,770)	—	—	1,753,478	(1,753,478)	—	—	3,195,632	(3,195,632)	—	—
Total revenues, gains (losses) and other support	2,568,355	2,561,116	2,372,997	7,502,468	3,898,738	1,728,566	1,320,806	6,948,110	6,701,216	4,924,115	4,428,696	16,054,027
Expenses:												
Program services	1,590,770	—	—	1,590,770	2,223,995	—	—	2,223,995	3,454,874	—	—	3,454,874
Management and general	110,201	—	—	110,201	199,838	—	—	199,838	432,691	—	—	432,691
Fundraising	654,805	—	—	654,805	424,920	—	—	424,920	500,653	—	—	500,653
Total expenses	2,355,776	—	—	2,355,776	2,848,753	—	—	2,848,753	4,388,218	—	—	4,388,218
Change in net assets before reclassifications and adjustments	212,579	2,561,116	2,372,997	5,146,692	1,049,985	1,728,566	1,320,806	4,099,357	2,312,998	4,924,115	4,428,696	11,665,809
Reclassifications and adjustments	(88,349)	(138,566)	109,575	(117,340)	—	154,120	(154,120)	—	—	—	—	—
Change in net assets	124,230	2,422,550	2,482,572	5,029,352	1,049,985	1,882,686	1,166,686	4,099,357	2,312,998	4,924,115	4,428,696	11,665,809
Net assets at beginning of year	928,750	3,465,598	14,507,518	18,901,866	322,934	9,084,252	10,492,374	19,899,560	5,176,070	5,543,642	10,399,680	21,119,392
Net assets at end of year	\$ 1,052,980	5,888,148	16,990,090	23,931,218	1,372,919	10,966,938	11,659,060	23,998,917	7,489,068	10,467,757	14,828,376	32,785,201

* Other Senior refers to CUNY Law School at Queens College, College of Staten Island, Lehman College, John Jay College of Criminal Justice, Medgar Evers and New York City College of Technology

** See note 1 for a listing of all community college foundation

THE CITY UNIVERSITY OF NEW YORK

Notes to Financial Statements

June 30, 2006 and 2005

Combining schedules of activities – College Foundations:

June 30, 2006

	Other Senior *				Total Senior			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:								
Gifts, grants and contributions:								
Special events	\$ 768,896	3,194,045	286,919	4,249,860	12,474,516	30,477,158	13,142,285	56,093,959
Program service revenues	627,771	95,656	—	723,427	2,458,621	145,656	—	2,604,277
Investment income	—	—	—	—	—	—	—	—
Net realized and unrealized gains (losses) on investment	284,820	260,293	—	545,113	5,484,784	9,448,197	835,457	15,768,438
Change in value of split interest agreement:	88,607	100,699	—	189,306	921,024	1,097,303	172,367	2,190,694
Other income	—	(3,980)	409	(3,571)	(43,607)	(62,420)	11,076	(94,951)
Donor agreed restipulation of restriction	21,259	24,377	—	45,636	296,607	26,969	85	323,661
Net assets released from restrictions:	—	—	—	—	(93,661)	(69,642)	163,303	—
	2,542,458	(2,512,458)	(30,000)	—	20,218,943	(18,989,009)	(1,229,934)	—
Total revenues, gains and other support	4,333,811	1,158,632	257,328	5,749,771	41,717,227	22,074,212	13,094,639	76,886,078
Expenses:								
Program services	3,473,606	—	—	3,473,606	28,383,205	—	—	28,383,205
Management and general	857,843	—	—	857,843	4,381,825	—	—	4,381,825
Fundraising	522,134	—	—	522,134	5,263,458	—	—	5,263,458
Total expenses	4,853,583	—	—	4,853,583	38,028,488	—	—	38,028,488
Change in net assets before reclassifications and adjustments	(519,772)	1,158,632	257,328	896,188	3,688,739	22,074,212	13,094,639	38,857,590
Reclassifications and adjustments	—	—	—	—	—	(85,875)	85,875	—
Change in net assets	(519,772)	1,158,632	257,328	896,188	3,688,739	21,988,337	13,180,514	38,857,590
Net assets at beginning of year	6,217,416	3,972,769	4,837,952	15,028,137	32,493,164	93,094,150	138,569,307	264,156,621
Net assets at end of year	\$ 5,697,644	5,131,401	5,095,280	15,924,325	36,181,903	115,082,487	151,749,821	303,014,211

June 30, 2005

	Other Senior *				Total Senior			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:								
Gifts, grants and contribution:								
Special events	\$ 893,201	2,300,602	429,260	3,623,063	16,588,279	20,906,372	13,360,219	50,854,870
Program service revenues	386,003	26,508	—	412,511	1,305,705	26,508	—	1,332,213
Investment income	—	—	—	—	—	—	—	—
Net realized and unrealized gains (losses) on investment	333,437	87,137	10,707	431,281	3,149,500	6,577,579	784,398	10,511,477
Change in value of split interest agreement:	299,688	131,331	30,488	461,507	1,919,065	2,362,092	714,519	4,995,676
Other income	134	—	—	134	(27,606)	39,868	(19,466)	(7,204)
Donor agreed restipulation of restriction	75,845	(2,173)	—	73,672	197,923	(2,173)	—	195,750
Net assets released from restrictions:	—	—	—	—	150	(10,150)	10,000	—
	2,277,333	(2,264,218)	(13,115)	—	19,407,577	(18,504,380)	(903,197)	—
Total revenues, gains (losses) and other support	4,265,641	279,187	457,340	5,002,168	42,540,593	11,395,716	13,946,473	67,882,782
Expenses:								
Program services	3,214,305	—	—	3,214,305	26,681,822	—	—	26,681,822
Management and general	680,842	—	—	680,842	3,639,588	—	—	3,639,588
Fundraising	402,937	—	—	402,937	4,862,437	—	—	4,862,437
Total expenses	4,298,084	—	—	4,298,084	35,183,847	—	—	35,183,847
Change in net assets before reclassifications and adjustments	(32,443)	279,187	457,340	704,084	7,356,746	11,395,716	13,946,473	32,698,935
Reclassifications and adjustments	(100,686)	92,211	8,475	—	(380,705)	(712,345)	975,710	(117,340)
Change in net assets	(133,129)	371,398	465,815	704,084	6,976,041	10,683,371	14,922,183	32,581,595
Net assets at beginning of year	6,350,545	3,601,371	4,372,137	14,324,053	25,517,123	82,410,779	123,647,124	231,575,026
Net assets at end of year	\$ 6,217,416	3,972,769	4,837,952	15,028,137	32,493,164	93,094,150	138,569,307	264,156,621

* Other Senior refers to CUNY Law School at Queens College, College of Staten Island, Lehman College, John Jay College of Criminal Justice, Medgar Evers and New York City College of Technology

** See note 1 for a listing of all community college foundation

THE CITY UNIVERSITY OF NEW YORK

Notes to Financial Statements

June 30, 2006 and 2005

Combining schedules of activities – College Foundations:

June 30, 2006

	Total Community **				Grand Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:								
Gifts, grants and contribution:	\$ 1,358,047	1,622,330	150,033	3,130,410	13,832,563	32,099,488	13,292,318	59,224,369
Special events	1,096,015	3,500	—	1,099,515	3,554,636	149,156	—	3,703,792
Program service revenues	570,821	—	—	570,821	570,821	—	—	570,821
Investment income	140,557	35,815	—	176,372	5,625,341	9,484,012	835,457	15,944,810
Net realized and unrealized gains (losses) on investment	226,169	19,702	—	245,871	1,147,193	1,117,005	172,367	2,436,565
Change in value of split interest agreement	—	—	—	—	(43,607)	(62,420)	11,076	(94,951)
Other income	630,714	—	—	630,714	927,321	26,969	85	954,375
Donor agreed restitution of restriction	—	—	—	—	(93,661)	(69,642)	163,303	—
Net assets released from restrictions	976,585	(976,585)	—	—	21,195,528	(19,965,594)	(1,229,934)	—
Total revenues, gains and other support	4,998,908	704,762	150,033	5,853,703	46,716,135	22,778,974	13,244,672	82,739,781
Expenses:								
Program services	3,376,939	—	—	3,376,939	31,760,144	—	—	31,760,144
Management and general	707,268	—	—	707,268	5,089,093	—	—	5,089,093
Fundraising	339,655	—	—	339,655	5,603,113	—	—	5,603,113
Total expenses	4,423,862	—	—	4,423,862	42,452,350	—	—	42,452,350
Change in net assets before reclassifications and adjustments	575,046	704,762	150,033	1,429,841	4,263,785	22,778,974	13,244,672	40,287,431
Reclassifications and adjustments	337,373	(294,186)	4,498	47,685	337,373	(380,061)	90,373	47,685
Change in net assets	912,419	410,576	154,531	1,477,526	4,601,158	22,398,913	13,335,045	40,335,116
Net assets at beginning of year	3,927,185	3,483,293	1,562,385	8,972,863	36,420,349	96,577,443	140,131,692	273,129,484
Net assets at end of year	\$ 4,839,604	3,893,869	1,716,916	10,450,389	41,021,507	118,976,356	153,466,737	313,464,600

June 30, 2005

	Total Community **				Grand Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:								
Gifts, grants and contribution:	\$ 964,345	1,406,966	193,699	2,565,010	17,552,624	22,313,338	13,553,918	53,419,880
Special events	1,311,575	2,720	—	1,314,295	2,617,280	29,228	—	2,646,508
Program service revenues	413,799	—	—	413,799	413,799	—	—	413,799
Investment income	129,124	32,571	—	161,695	3,278,624	6,610,150	784,398	10,673,172
Net realized and unrealized gains (losses) on investment	152,757	44,922	—	197,679	2,071,822	2,407,014	714,519	5,193,355
Change in value of split interest agreement	—	—	—	—	(27,606)	39,868	(19,466)	(7,204)
Other income	674,403	500	—	674,903	872,326	(1,673)	—	870,653
Donor agreed restitution of restriction	—	—	—	—	150	(10,150)	10,000	—
Net assets released from restrictions	2,192,054	(2,192,054)	—	—	21,599,631	(20,696,434)	(903,197)	—
Total revenues, gains (losses) and other support	5,838,057	(704,375)	193,699	5,327,381	48,378,650	10,691,341	14,140,172	73,210,163
Expenses:								
Program services	4,006,636	—	—	4,006,636	30,688,458	—	—	30,688,458
Management and general	495,591	—	—	495,591	4,135,179	—	—	4,135,179
Fundraising	448,951	—	—	448,951	5,311,388	—	—	5,311,388
Total expenses	4,951,178	—	—	4,951,178	40,135,025	—	—	40,135,025
Change in net assets before reclassifications and adjustments	886,879	(704,375)	193,699	376,203	8,243,625	10,691,341	14,140,172	33,075,138
Reclassifications and adjustments	(248,515)	980,568	—	732,053	(629,220)	268,223	975,710	614,713
Change in net assets	638,364	276,193	193,699	1,108,256	7,614,405	10,959,564	15,115,882	33,689,851
Net assets at beginning of year	3,288,821	3,207,100	1,368,686	7,864,607	28,805,944	85,617,879	125,015,810	239,439,633
Net assets at end of year	\$ 3,927,185	3,483,293	1,562,385	8,972,863	36,420,349	96,577,443	140,131,692	273,129,484

* Other Senior refers to CUNY Law School at Queens College, College of Staten Island, Lehman College, John Jay College of Criminal Justice, Medgar Evers and New York City College of Technology
 ** See note 1 for a listing of all community college foundation

THE CITY UNIVERSITY OF NEW YORK

Schedule of Net Assets – Senior and Community Colleges

June 30, 2006

(In thousands)

	Senior colleges	Community colleges	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 290,740	36,862	327,602
Short-term investments	111,847	23,913	135,760
Deposits held by bond trustees	105,481	16,300	121,781
Amounts held by the Dormitory Authority of the State of New York	9,279	7,118	16,397
Receivables, net	270,664	73,212	343,876
Prepaid assets and other current assets	13,216	827	14,043
Total current assets	<u>801,227</u>	<u>158,232</u>	<u>959,459</u>
Noncurrent assets:			
Restricted cash	5,903	—	5,903
Long-term investments	172,562	5,638	178,200
Deposits held by bond trustees	509,576	95,094	604,670
Student loans and accrued interest receivable, net	4,330	771	5,101
Capital assets, net	2,463,390	489,066	2,952,456
Deferred financing costs	35,509	4,812	40,321
Other noncurrent assets	10,046	105	10,151
Total noncurrent assets	<u>3,201,316</u>	<u>595,486</u>	<u>3,796,802</u>
Total assets	<u>4,002,543</u>	<u>753,718</u>	<u>4,756,261</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	272,184	94,686	366,870
Compensated absences	50,818	14,879	65,697
Deferred tuition and fees revenue	48,906	7,097	56,003
Accrued interest payable	42,689	5,262	47,951
Current portion of long-term debt	87,124	19,814	106,938
Deferred grant revenue	63,114	278	63,392
Collateral held for securities lending	23,203	949	24,152
Other current liabilities	12,422	287	12,709
Deposits held in custody for others	17,155	4,839	21,994
Total current liabilities	<u>617,615</u>	<u>148,091</u>	<u>765,706</u>
Noncurrent liabilities:			
Compensated absences	28,731	8,899	37,630
Long-term debt	2,926,776	515,689	3,442,465
Federal refundable loans	39,048	5,897	44,945
Other noncurrent liabilities	6,247	4,967	11,214
Total noncurrent liabilities	<u>3,000,802</u>	<u>535,452</u>	<u>3,536,254</u>
Total liabilities	<u>3,618,417</u>	<u>683,543</u>	<u>4,301,960</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	(115,378)	1,746	(113,632)
Restricted:			
Nonexpendable	47,111	186	47,297
Expendable:			
Debt service	169,215	66,503	235,718
Scholarships and general educational support	109,980	494	110,474
Loans	4,658	2,044	6,702
Other	14,154	1,788	15,942
Unrestricted	154,386	(2,586)	151,800
Total net assets	<u>\$ 384,126</u>	<u>70,175</u>	<u>454,301</u>

See accompanying independent auditors' report.

THE CITY UNIVERSITY OF NEW YORK

Schedule of Revenues, Expenses, and Changes in Net Assets – Senior and Community Colleges

Year ended June 30, 2006

(In thousands)

	<u>Senior colleges</u>	<u>Community colleges</u>	<u>Total</u>
Revenues:			
Operating revenues:			
Tuition and fees, net	\$ 469,272	113,459	582,731
Grants and contracts:			
Federal	264,250	100,580	364,830
New York State	178,372	45,455	223,827
New York City	100,066	3,111	103,177
Private	79,975	3,721	83,696
Total grants and contracts	<u>622,663</u>	<u>152,867</u>	<u>775,530</u>
Sales and services of auxiliary enterprises	15,246	4,913	20,159
Other operating revenues	<u>42,035</u>	<u>5,735</u>	<u>47,770</u>
Total operating revenues	<u>1,149,216</u>	<u>276,974</u>	<u>1,426,190</u>
Expenses:			
Operating expenses:			
Instruction	851,877	294,001	1,145,878
Research	99,076	369	99,445
Public service	21,947	26,476	48,423
Academic support	113,659	16,990	130,649
Student services	163,737	59,707	223,444
Institutional support	288,272	105,280	393,552
Operation and maintenance of plant	294,117	89,385	383,502
Scholarships and fellowships	113,589	56,325	169,914
Auxiliary enterprises	13,370	3,637	17,007
Depreciation and amortization expense	<u>134,879</u>	<u>32,958</u>	<u>167,837</u>
Total operating expenses	<u>2,094,523</u>	<u>685,128</u>	<u>2,779,651</u>
Operating loss	<u>(945,307)</u>	<u>(408,154)</u>	<u>(1,353,461)</u>
Nonoperating revenues (expenses):			
Government appropriations:			
New York State	762,390	154,607	916,997
New York City	33,232	213,618	246,850
Gifts and grants	3,699	2,891	6,590
Investment income, net	43,586	5,824	49,410
Interest expense	(151,626)	(27,301)	(178,927)
Net appreciation (depreciation) in fair value of investments	16,344	(728)	15,616
Transfers	(7,284)	7,284	—
Other nonoperating expenses, net	<u>(1,701)</u>	<u>(3,197)</u>	<u>(4,898)</u>
Net nonoperating revenues	<u>698,640</u>	<u>352,998</u>	<u>1,051,638</u>
Loss before other revenues	<u>(246,667)</u>	<u>(55,156)</u>	<u>(301,823)</u>
Capital appropriations	287,457	78,354	365,811
Additions to permanent endowments	<u>15,699</u>	<u>78</u>	<u>15,777</u>
Total other revenues	<u>303,156</u>	<u>78,432</u>	<u>381,588</u>
Increase in net assets	56,489	23,276	79,765
Net assets at beginning of year	<u>327,637</u>	<u>46,899</u>	<u>374,536</u>
Net assets at end of year	<u>\$ 384,126</u>	<u>70,175</u>	<u>454,301</u>

See accompanying independent auditors' report.

THE CITY UNIVERSITY OF NEW YORK
Schedule of Cash Flows – Senior and Community Colleges
Year ended June 30, 2006
(In thousands)

	<u>Senior colleges</u>	<u>Community colleges</u>	<u>Total</u>
Cash flows from operating activities:			
Collection of tuition and fees	\$ 480,471	117,194	597,665
Collection of grants and contracts	624,719	152,742	777,461
Sales and services of auxiliary enterprises	15,246	4,913	20,159
Payments to suppliers	(396,807)	(132,511)	(529,318)
Payments for utilities	(56,723)	(17,429)	(74,152)
Payments to employees	(1,050,390)	(329,937)	(1,380,327)
Payments for benefits	(307,460)	(106,130)	(413,590)
Payments for scholarships and fellowships	(113,589)	(56,325)	(169,914)
Other receipts (payments)	73,876	(236)	73,640
Net cash flows used by operating activities	<u>(730,657)</u>	<u>(367,719)</u>	<u>(1,098,376)</u>
Cash flows from noncapital financing activities:			
State and City appropriations	737,141	353,014	1,090,155
Gifts and grants for other than capital purposes	3,699	2,891	6,590
Private gifts for endowment purposes	15,699	78	15,777
Loans issued to students	(8,960)	(2,102)	(11,062)
Collection of loans from students	8,185	1,558	9,743
Increase in deposits held in custody for others	2,082	433	2,515
Other (payments) receipts	(6,964)	5,018	(1,946)
Net cash flows provided by noncapital financing activities	<u>750,882</u>	<u>360,890</u>	<u>1,111,772</u>
Cash flows from capital and related financing activities:			
Proceeds from capital debt	316,223	25,347	341,570
Capital appropriations	287,457	78,354	365,811
Purchases of capital assets	(129,845)	(25,014)	(154,859)
Principal paid on capital debt	(170,877)	(51,933)	(222,810)
Interest paid on capital debt	(174,449)	(35,175)	(209,624)
Amount paid for bond issuance costs	(4,205)	(345)	(4,550)
(Increase) decrease in deposits held by bond trustees	(112,926)	17,379	(95,547)
Decrease (increase) in amounts held by DASNY	11,603	(3,489)	8,114
Net cash flows provided by capital and related financing activities	<u>22,981</u>	<u>5,124</u>	<u>28,105</u>
Cash flows from investing activities:			
Investment income	41,911	5,758	47,669
Proceeds from sales and maturities of investments	291,029	8,065	299,094
Purchases of investments	(353,325)	(12,313)	(365,638)
Deposit of restricted cash	(1,951)	—	(1,951)
Increase in collateral held for securities lending	8,349	382	8,731
Net cash flows (used) provided by investing activities	<u>(13,987)</u>	<u>1,892</u>	<u>(12,095)</u>
Net increase in cash and cash equivalents	29,219	187	29,406
Cash and cash equivalents at beginning of year	<u>261,521</u>	<u>36,675</u>	<u>298,196</u>
Cash and cash equivalents at end of year	<u>\$ 290,740</u>	<u>36,862</u>	<u>327,602</u>

THE CITY UNIVERSITY OF NEW YORK

Schedule of Cash Flows – Senior and Community Colleges

Year ended June 30, 2006

(In thousands)

	<u>Senior colleges</u>	<u>Community colleges</u>	<u>Total</u>
Reconciliation of operating loss to net cash flows used by operating activities:			
Operating loss	\$ (945,307)	(408,154)	(1,353,461)
Adjustments to reconcile operating loss to net cash flows used in operating activities:			
Depreciation and amortization expense	134,879	32,958	167,837
Change in operating assets and liabilities:			
Receivables	35,109	6,291	41,400
Prepaid expenses and other assets	(5,191)	200	(4,991)
Accounts payable and accrued expenses	39,514	5,081	44,595
Deferred tuition and fees revenue	1,310	645	1,955
Compensated absences	2,644	407	3,051
Deferred grant revenue	(1,300)	(3,339)	(4,639)
Other liabilities	7,685	(1,808)	5,877
Net cash flows used by operating activities	<u>\$ (730,657)</u>	<u>(367,719)</u>	<u>(1,098,376)</u>

See accompanying independent auditors' report.