Independent Auditors’ Report

Report of Independent Auditors

To the Board of Trustees of
New York University

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of New York University (the “University”) at August 31, 2006 and 2005, and the results of their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 11 to the Financial Statements, the University applied the provisions of FASB Interpretation No. 47 “Accounting for Conditional Asset Retirement Obligations”.

November 17, 2006
Consolidated Balance Sheets
August 31, 2006 and 2005

(in thousands of dollars)

<table>
<thead>
<tr>
<th>Assets</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 9,863</td>
<td>$ 15,585</td>
</tr>
<tr>
<td>Short-term investments (Note 3)</td>
<td>559,306</td>
<td>489,807</td>
</tr>
<tr>
<td>Accounts and loans receivable, net (Note 4)</td>
<td>304,189</td>
<td>268,974</td>
</tr>
<tr>
<td>Contributions receivable, net (Note 5)</td>
<td>312,026</td>
<td>299,298</td>
</tr>
<tr>
<td>Other assets</td>
<td>84,816</td>
<td>66,998</td>
</tr>
<tr>
<td>Deposits with trustees (Note 6)</td>
<td>147,052</td>
<td>172,409</td>
</tr>
<tr>
<td>Collateral for securities loaned (Note 3)</td>
<td>97,385</td>
<td>82,376</td>
</tr>
<tr>
<td>Long-term investments (Note 3)</td>
<td>1,873,320</td>
<td>1,643,177</td>
</tr>
<tr>
<td>Land, buildings, and equipment, net (Notes 7 and 11)</td>
<td>1,848,709</td>
<td>1,782,256</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$ 5,237,266</strong></td>
<td><strong>$ 4,820,880</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES</strong></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
</tr>
<tr>
<td>Deferred revenue</td>
</tr>
<tr>
<td>Security loan agreements payable (Note 3)</td>
</tr>
<tr>
<td>Bonds and notes payable (Note 8)</td>
</tr>
<tr>
<td>Federal grants refundable</td>
</tr>
<tr>
<td>Accrued pension benefits (Note 9)</td>
</tr>
<tr>
<td>Accrued postretirement benefits (Note 10)</td>
</tr>
<tr>
<td>Asset retirement obligation (Note 11)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

| **NET ASSETS**             |
| Unrestricted               | 1,549,123 | 1,367,794 |
| Temporarily restricted (Note 16) | 328,796 | 301,825 |
| Permanently restricted (Note 16) | 971,188 | 893,638 |
| **Total net assets**       | **$ 2,848,207** | **$ 2,563,257** |
| **Total liabilities and net assets** | **$ 5,237,266** | **$ 4,820,880** |

The accompanying notes are an integral part of these consolidated financial statements.
Consolidated Statements of Activities

Years Ended August 31, 2006 and 2005

(in thousands of dollars)

<table>
<thead>
<tr>
<th>Changes in unrestricted net assets:</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees (net of financial aid awards of $206,222 in 2006 and $196,654 in 2005)</td>
<td>$985,803</td>
<td>810,115</td>
</tr>
<tr>
<td>Grants and contracts (Note 13)</td>
<td>273,215</td>
<td>277,311</td>
</tr>
<tr>
<td>Patient care</td>
<td>275,393</td>
<td>273,673</td>
</tr>
<tr>
<td>Hospital affiliations (Note 14)</td>
<td>130,115</td>
<td>113,744</td>
</tr>
<tr>
<td>New York State appropriation</td>
<td>5,284</td>
<td>5,152</td>
</tr>
<tr>
<td>Contributions</td>
<td>86,003</td>
<td>79,877</td>
</tr>
<tr>
<td>Endowment distribution and return on short-term investments (Note 3)</td>
<td>84,942</td>
<td>75,716</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>326,914</td>
<td>313,811</td>
</tr>
<tr>
<td>Royalties</td>
<td>93,934</td>
<td>78,328</td>
</tr>
<tr>
<td>Program fees and other</td>
<td>99,147</td>
<td>97,034</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>92,424</td>
<td>98,117</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>2,453,174</td>
<td>2,322,878</td>
</tr>
<tr>
<td>Operating Expenses (Notes 14 and 15):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction and other academic programs</td>
<td>1,004,015</td>
<td>940,645</td>
</tr>
<tr>
<td>Research and other sponsored programs</td>
<td>247,724</td>
<td>246,949</td>
</tr>
<tr>
<td>Patient care</td>
<td>245,740</td>
<td>241,348</td>
</tr>
<tr>
<td>Libraries</td>
<td>54,137</td>
<td>51,847</td>
</tr>
<tr>
<td>Student services</td>
<td>80,813</td>
<td>87,448</td>
</tr>
<tr>
<td>Hospital affiliations</td>
<td>133,098</td>
<td>116,660</td>
</tr>
<tr>
<td>Institutional services</td>
<td>208,560</td>
<td>192,300</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>353,194</td>
<td>340,225</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>2,336,281</td>
<td>2,217,422</td>
</tr>
<tr>
<td>Excess of operating revenues over operating expenses</td>
<td>116,893</td>
<td>105,456</td>
</tr>
<tr>
<td>Nonoperating Activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment return in excess of endowment distribution, net (Note 3)</td>
<td>130,542</td>
<td>106,040</td>
</tr>
<tr>
<td>Other</td>
<td>4,464</td>
<td>2,026</td>
</tr>
<tr>
<td>Minimum pension liability adjustment (Note 9)</td>
<td>18,110</td>
<td>(21,219)</td>
</tr>
<tr>
<td>Increase in unrestricted net assets before cumulative effect of change in accounting principle</td>
<td>261,081</td>
<td>192,303</td>
</tr>
<tr>
<td>Cumulative effect of change in accounting principle (Note 11)</td>
<td>(79,752)</td>
<td>—</td>
</tr>
<tr>
<td>Increase in unrestricted net assets</td>
<td>181,329</td>
<td>192,303</td>
</tr>
</tbody>
</table>

Changes in temporarily restricted net assets:

| Contributions | 123,184 | 111,404 |
| Other         | (371)  | 1,275  |
| Net assets released from restrictions | 92,424  | (98,117) |
| Increase (decrease) in temporarily restricted net assets | 26,071  | (15,423) |

Changes in permanently restricted net assets:

| Contributions | 85,861  | 36,324 |
| Unrealized gain on deposits with trustees (Note 6) | 510   | 2,262 |
| Other        | (8,821) | (19,917) |
| Increase in permanently restricted net assets | 77,550  | 18,669 |
| Increase in net assets | 284,950 | 195,549 |

The accompanying notes are an integral part of these consolidated financial statements.
Consolidated Statements of Cash Flows

Years Ended August 31, 2006 and 2005

(in thousands of dollars)

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in net assets</td>
<td>$284,050</td>
<td>$195,549</td>
</tr>
<tr>
<td><strong>ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>123,765</td>
<td>110,626</td>
</tr>
<tr>
<td>Net gain on investments and deposits with trustees</td>
<td>77,631</td>
<td>92,831</td>
</tr>
<tr>
<td>Other nonoperating changes</td>
<td>5,014</td>
<td>(4,163)</td>
</tr>
<tr>
<td>Minimum pension liability adjustment</td>
<td>(18,310)</td>
<td>21,219</td>
</tr>
<tr>
<td>Cumulative effect of change in accounting principle</td>
<td>79,752</td>
<td>—</td>
</tr>
<tr>
<td>Contributions restricted for permanent investment and capital</td>
<td>(75,176)</td>
<td>(31,857)</td>
</tr>
<tr>
<td>Contributed royalty interest</td>
<td>(580)</td>
<td>(4,898)</td>
</tr>
<tr>
<td>Adjustments to contributions receivable, net</td>
<td>—</td>
<td>23,352</td>
</tr>
<tr>
<td><strong>CHANGES IN OPERATING ASSETS AND LIABILITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in accounts and loans receivable</td>
<td>(37,579)</td>
<td>(2,318)</td>
</tr>
<tr>
<td>Decrease in nonendowment and noncapital contributions receivable</td>
<td></td>
<td>22,895</td>
</tr>
<tr>
<td>Increase in other assets</td>
<td>(5,018)</td>
<td>(3,360)</td>
</tr>
<tr>
<td>(Increase) decrease in accounts payable and accrued expenses</td>
<td>(19,571)</td>
<td>26,616</td>
</tr>
<tr>
<td>Increase in deferred revenue</td>
<td>67,936</td>
<td>1,149</td>
</tr>
<tr>
<td>Decrease in accrued pension benefits</td>
<td>(1,662)</td>
<td>(6,450)</td>
</tr>
<tr>
<td>Increase in postretirement benefits</td>
<td>(46,523)</td>
<td>20,139</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>355,852</td>
<td>273,468</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(6,460,783)</td>
<td>(4,636,787)</td>
</tr>
<tr>
<td>Sales of investments</td>
<td>6,237,771</td>
<td>4,505,730</td>
</tr>
<tr>
<td>Drawdowns of unexpended bond proceeds</td>
<td>39,474</td>
<td>38,948</td>
</tr>
<tr>
<td>Additions to land, buildings, and equipment, net of disposals</td>
<td>(180,982)</td>
<td>(191,682)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(373,520)</td>
<td>(393,791)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions restricted for permanent investment and capital</td>
<td>75,176</td>
<td>31,857</td>
</tr>
<tr>
<td>(Increase) decrease in endowment &amp; capital contributions receivable</td>
<td>(20,203)</td>
<td>11,516</td>
</tr>
<tr>
<td>Principal payments on bonds and notes payable</td>
<td>(39,909)</td>
<td>(30,779)</td>
</tr>
<tr>
<td>Decrease in receivable from NYUHC</td>
<td>2,364</td>
<td>2,290</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>34</td>
<td>155,277</td>
</tr>
<tr>
<td>(Decrease) increase in Federal grants refundable</td>
<td>(369)</td>
<td>663</td>
</tr>
<tr>
<td>Increase in deposits with bond trustees</td>
<td>(5,287)</td>
<td>(151,923)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>11,946</td>
<td>18,841</td>
</tr>
<tr>
<td>Net decrease in cash</td>
<td>(5,772)</td>
<td>(11,482)</td>
</tr>
<tr>
<td><strong>Cash:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>15,585</td>
<td>27,067</td>
</tr>
<tr>
<td>End of year</td>
<td>$9,863</td>
<td>$15,585</td>
</tr>
</tbody>
</table>

**Supplemental data:**

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>$58,474</td>
<td>$55,769</td>
</tr>
<tr>
<td>Non-cash FIN 47</td>
<td>$10,241</td>
<td>—</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
Notes to Consolidated Financial Statements

August 31, 2006 and 2005 (in thousands of dollars)

Description of New York University

New York University (the University) is a private institution of higher education and research located primarily in New York City. The University is recognized both nationally and internationally as a leader in scholarship and is a member of the distinguished Association of American Universities. Founded in 1831, the University includes sixteen schools, colleges, and divisions and five major centers in Manhattan, each with its own traditions, programs, and faculty. The schools, in order of founding date, are the College of Arts and Science, School of Law, School of Medicine, College of Dentistry, Graduate School of Arts and Science, Steinhardt School of Education, Leonard N. Stern School of Business, Courant Institute of Mathematical Sciences, School of Continuing and Professional Studies, Institute of Fine Arts, Robert F. Wagner Graduate School of Public Service, Post-Graduate Medical School, School of Social Work, Tisch School of the Arts, Gallatin School of Individualized Study, and the College of Nursing. The University also operates academic program sites and research programs in other parts of the United States and abroad.

Summary of Significant Accounting Policies

Basis of Presentation The accompanying consolidated financial statements include the accounts of the University, as well as three separately incorporated affiliates: the New York University School of Law Foundation, the Institute of Fine Arts Foundation, and the New York University Medical Center Foundation. The University and its affiliates are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The University prepares its consolidated financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 117 (SFAS 117), Financial Statements of Not-for-Profit Organizations. SFAS 117 focuses on the entity as a whole and requires classification of net assets as unrestricted, temporarily restricted, or permanently restricted, determined by the existence or absence of restrictions placed on the assets' use by donors or by provision of law. Unrestricted net assets include all resources that are not subject to donor-imposed restrictions. Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Contributions receivable that do not carry a purpose restriction are deemed to be temporarily restricted. Temporary restrictions are removed either through the passage of time or because certain actions are taken by the University that fulfill the restrictions. Donor-restricted gifts and investment return that are either spent or deemed spent within the same fiscal year as received or earned are reported as unrestricted revenues. Temporarily restricted gifts received and contributions receivable payments and investment return spent subsequent to the fiscal year received or earned are reported as net assets released from restrictions. Permanently restricted net assets are subject to donor-imposed restrictions that never lapse, thus requiring that the funds be retained in perpetuity.

Operations Revenues and expenses related to conducting programmatic activities and provision of services by the University are classified as operating in the consolidated statements of activities. Investment return (realized and unrealized net gains or losses on investments, interest, and dividends) in excess of or less than the University's approved endowment distribution (see Note 3) as well as unusual or nonrecurring activity are classified as nonoperating in the consolidated statements of activities.

Investments Investments (including deposits with trustees) in marketable securities with readily determinable market values and all investments in debt securities are reported at fair value in the consolidated balance sheets, based on quoted market prices.

The fair value of alternative investments is based on values reported by the respective external investment managers, and consists of primarily readily marketable securities but may be less liquid than the University's other investments. The University believes that the carrying amount of its alternative instruments is a reasonable estimate of fair value as of August 31, 2006 and 2005. Certain securities underlying the alternative instruments are not readily marketable. Although the estimated value is subject to uncertainty and may differ from the value that would have been used had a ready market for the securities existed, management believes that any such difference would not have a material effect on the University's consolidated financial position.
In addition, a limited number of the investment vehicles included in the alternative instruments have liquidity restrictions which may defer redemption of the investment for a short period of time. The amount of gain or loss associated with these alternative instruments is reflected in the accompanying financial statements using the equity method of accounting.

Investments in certain private capital funds are recorded at fair value as of the date of the last portfolio appraisal. The funds are then adjusted for capital contributions and redemptions made between the valuation date and year-end.

**Contributions** Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions receivable are recorded at their discounted present value and an allowance for amounts estimated to be uncollectible is provided. Conditional promises to give are not recognized as revenue until they become unconditional, that is when the conditions on which they depend are substantially met.

**Collections** The University does not assign values to collection items. Collection items are generally held for educational purposes and are not disposed of for financial gain or otherwise encumbered in any manner.

**Royalties** Royalties revenue is reported on the accrual basis based upon quarterly reports and cash flows from independent third parties. Such funds represent the University’s net share of royalties associated with inventions.

**Fair Value of Financial Instruments** The carrying amounts of financial instruments such as accounts receivable, accounts payable and accrued expenses approximate fair value because of their short-term maturity. The carrying value of bonds and notes payable approximates fair value because these financial instruments in the aggregate bear interest at rates which approximate current market rates for loans with similar maturities and credit quality.

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

**Land, Buildings, and Equipment** Land, buildings, and equipment are carried at their acquisition or construction cost. If donated, these assets are recorded at their fair value on the date of the gift. Buildings and equipment are depreciated over their estimated useful lives (buildings and building improvements 15-40 years, equipment 3-9 years) using the straight-line method.

**Patient Care** Patient care revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. Such revenue includes amounts earned through services provided to patients whose health care is covered under self-pay, commercial insurance, Medicare, and Medicaid.

**Accounting Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** Certain amounts in the 2005 consolidated financial statements have been reclassified to conform to the current year’s presentation.

**Change in Accounting Principle** During 2006, the University adopted Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 is an interpretation of Statements of Financial Accounting Standards No. 143 and requires the University to recognize asset retirement obligations on a future event, such as the obligation to safely dispose of asbestos, lead-based paint and petroleum bulk storage tanks when a building is remodeled or demolished. Upon adoption of FIN 47, the University recorded the cumulative effect of a change in accounting principle (see Note 11).
# Investments

The following table summarizes the fair value of investments at August 31, 2006 and 2005:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term investments:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed income securities</td>
<td>$360,422</td>
<td>$425,566</td>
</tr>
<tr>
<td>Equity securities</td>
<td>890,873</td>
<td>708,638</td>
</tr>
<tr>
<td>Alternative investments</td>
<td>584,424</td>
<td>471,525</td>
</tr>
<tr>
<td>Real estate</td>
<td>27,843</td>
<td>27,841</td>
</tr>
<tr>
<td>Other</td>
<td>9,758</td>
<td>9,607</td>
</tr>
<tr>
<td><strong>Subtotal long-term investments</strong></td>
<td><strong>1,873,320</strong></td>
<td><strong>1,643,177</strong></td>
</tr>
<tr>
<td><strong>Short-term investments (principally fixed income securities):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>526,589</td>
<td>457,627</td>
</tr>
<tr>
<td>Other</td>
<td>32,717</td>
<td>32,180</td>
</tr>
<tr>
<td><strong>Subtotal short-term investments</strong></td>
<td><strong>559,306</strong></td>
<td><strong>489,807</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,432,626</strong></td>
<td><strong>$2,132,984</strong></td>
</tr>
</tbody>
</table>

Long-term investments and accounts payable at August 31, 2006 and 2005 include $23,457 and $20,887, respectively, that are managed by the University on behalf of the New York University Hospitals Center (NYUHC).

Investment securities having a fair value of $94,200 and $79,997 at August 31, 2006 and 2005, respectively, were lent to various brokerage firms. The securities are returnable on demand and were collateralized by cash deposits of $97,385 and $82,376 at August 31, 2006 and 2005, respectively. The collateral is invested in short-term securities and income is credited to the long-term investment pool.

The University maintains an investment pool for its long-term investments. The pool is managed to achieve the maximum prudent long-term return. The University’s Board of Trustees has authorized a policy designed to allow growth while providing a predictable flow of support to operations. This policy permits the use of total return at approved spending rates (5% in 2006 and 2005) applied to the twelve-quarter moving average fair value of the investment pool. This amount, along with interest and dividends earned on short-term investments, is reported as operating revenues in the consolidated statements of activities. Investment return in excess of or less than the University’s approved endowment distribution is reported as nonoperating activity in the consolidated statements of activities.

At August 31, 2006 and 2005, the University had capital commitments remaining to various private capital equity programs of approximately $65,228 and $57,270, respectively.

Investment return for the years ended August 31, 2006 and 2005, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends and interest</td>
<td>$53,938</td>
<td>$51,444</td>
</tr>
<tr>
<td>Realized and unrealized gains, net</td>
<td>164,530</td>
<td>135,220</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>(3,555)</td>
<td>(3,339)</td>
</tr>
<tr>
<td><strong>Total investment return, net</strong></td>
<td>214,913</td>
<td>183,031</td>
</tr>
<tr>
<td>Less investment return approved for operations</td>
<td>84,642</td>
<td>75,716</td>
</tr>
<tr>
<td><strong>Investment return in excess of endowment distribution</strong></td>
<td><strong>$129,971</strong></td>
<td><strong>$107,315</strong></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$130,542</td>
<td>$106,040</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>$ (571)</td>
<td>$ 1,275</td>
</tr>
</tbody>
</table>

During 2005, the Partners Program was established as the cornerstone of an intensive University effort over the next several years to hire up to 125 new distinguished faculty in arts and science. Partner Trustees will provide initial funding of approximately $50 million, to be matched three to one, in part, with unrestricted University endowment funds. The Partners Fund will stimulate an intensified focus on core arts and science research and teaching, elevating the University’s national and international visibility and prominence as a major research university.
The matching endowment funds are segregated within the endowment pool and will be retained in the pool until needed for the program. Management has segregated these funds as described above, but the intention is to meet the matching requirements, to the extent possible, through additional fundraising or surpluses generated on other programs, with the segregated endowment funds viewed as the matching source of last resort. During 2006, new appointments were made to 29 mid-career and senior Partners Program faculty.

**Accounts and Loans Receivables**

Accounts and loans receivable consist of the following at August 31, 2006 and 2005:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student and other</td>
<td>$86,613</td>
<td>$78,610</td>
</tr>
<tr>
<td>Patient care</td>
<td>41,381</td>
<td>43,382</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>42,883</td>
<td>28,687</td>
</tr>
<tr>
<td>Royalties</td>
<td>41,172</td>
<td>13,245</td>
</tr>
<tr>
<td>Student loans</td>
<td>89,784</td>
<td>90,436</td>
</tr>
<tr>
<td>Receivable from NYUHC</td>
<td>14,891</td>
<td>26,795</td>
</tr>
<tr>
<td></td>
<td>310,724</td>
<td>280,555</td>
</tr>
<tr>
<td>Allowance for uncollectible amounts</td>
<td>(12,555)</td>
<td>(11,581)</td>
</tr>
<tr>
<td>Accounts and loans receivable, net</td>
<td>$304,169</td>
<td>$268,974</td>
</tr>
</tbody>
</table>

The allowance for uncollectible amounts of accounts and loans receivable at August 31, 2006 and 2005 consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student and other</td>
<td>$ (6,725)</td>
<td>$ (6,165)</td>
</tr>
<tr>
<td>Patient care</td>
<td>(2,279)</td>
<td>(1,885)</td>
</tr>
<tr>
<td>Student loans</td>
<td>(3,531)</td>
<td>(3,531)</td>
</tr>
<tr>
<td>Total allowance for uncollectible amounts</td>
<td>$ (12,555)</td>
<td>$ (11,581)</td>
</tr>
</tbody>
</table>

**Contributions Receivable**

Contributions receivable consist of the following at August 31, 2006 and 2005:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts expected to be collected in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than one year</td>
<td>$35,930</td>
<td>$35,287</td>
</tr>
<tr>
<td>One to five years</td>
<td>389,205</td>
<td>319,659</td>
</tr>
<tr>
<td>More than five years</td>
<td>77,430</td>
<td>66,459</td>
</tr>
<tr>
<td></td>
<td>402,565</td>
<td>420,805</td>
</tr>
<tr>
<td>Discount to present value (4.5% in 2006 and 2005)</td>
<td>(51,530)</td>
<td>(81,836)</td>
</tr>
<tr>
<td>Allowance for uncollectible amounts</td>
<td>(39,009)</td>
<td>(39,651)</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>$312,026</td>
<td>$299,298</td>
</tr>
</tbody>
</table>

Contributions receivable activity for the years ended August 31, 2006 and 2005 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions receivable at beginning of year, net</td>
<td>$299,298</td>
<td>$357,062</td>
</tr>
<tr>
<td>Add discount to present value and allowance</td>
<td>123,507</td>
<td>106,910</td>
</tr>
<tr>
<td>Contributions receivable beginning of year, gross</td>
<td>420,805</td>
<td>463,972</td>
</tr>
<tr>
<td>New pledges received (undiscounted)</td>
<td>126,731</td>
<td>151,438</td>
</tr>
<tr>
<td>Adjustments and writeoffs</td>
<td>(15,061)</td>
<td>(49,751)</td>
</tr>
<tr>
<td>Pledge payments received</td>
<td>(129,019)</td>
<td>(144,854)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>402,565</td>
<td>420,805</td>
</tr>
<tr>
<td>Deduct discount to present value and allowance</td>
<td>(90,539)</td>
<td>(123,507)</td>
</tr>
<tr>
<td>Contributions receivable at end of year, net</td>
<td>$312,026</td>
<td>$299,298</td>
</tr>
</tbody>
</table>
Expenses related to fundraising activities were $15,787 and $15,426 for the years ended August 31, 2006 and 2005, respectively.

In 2006, the University received a conditional gift in the amount of $48,000, of which $4,000 was recorded for funds received during the year. The remaining portion of the conditional gift, which has not been recorded, is intended to establish and support the Institute for the Study of the Ancient World, which will promote a new graduate research and doctoral program.

**Deposits with Trustees**

Deposits with trustees consist principally ($123,677 in 2006 and $148,985 in 2005) of various unexpended funds that relate to the DASNY insured revenue bonds.

In addition, the University holds all outstanding shares of a corporation that owns certain real property in Florence, Italy, known as Villa La Pietra (La Pietra), together with works of art and other personal property located in and around La Pietra known as the Acton Collection. This gift is subject to certain restrictions with respect to the use of the real and personal property. Because the University does not assign values to collection items, the consolidated financial statements do not include any amounts for La Pietra or the Acton Collection.

Further, the University is the income beneficiary of a perpetual trust. The income from this trust must be used for the support, maintenance, and utilization of La Pietra and the Acton Collection. The trust income is also to be used for the education, benefit, and assistance of faculty and students of the arts and crafts, architecture, literature, music, and history of the arts, and all other arts either in the United States or in foreign countries. The trust is included in the University’s consolidated balance sheets at August 31, 2006 and 2005 at its estimated present value, which approximates the fair value of the trust ($23,075 and $22,524, respectively).

**Land, Buildings and Equipment**

Land, buildings and equipment consist of the following at August 31, 2006 and 2005:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$139,387</td>
<td>$139,387</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>2,429,513</td>
<td>2,182,844</td>
</tr>
<tr>
<td>Equipment</td>
<td>562,826</td>
<td>479,526</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>101,679</td>
<td>174,179</td>
</tr>
<tr>
<td></td>
<td>3,173,405</td>
<td>2,975,936</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(1,324,696)</td>
<td>(1,193,680)</td>
</tr>
<tr>
<td>Land, buildings, and equipment, net</td>
<td>$1,848,709</td>
<td>$1,782,256</td>
</tr>
</tbody>
</table>

The adoption of FIN 47 resulted in a $10,241 increase in land, buildings and equipment, net, at August 31, 2006 (see Note 11).

Depreciation expense was $120,797 and $112,181 at August 31, 2006 and 2005, respectively.
Bonds and notes payable at August 31, 2006 and 2005 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds and notes payable attributable to the University</td>
<td>$1,051,913</td>
<td>$1,091,621</td>
</tr>
<tr>
<td>Bonds and notes payable attributable to NYUHC</td>
<td>114,462</td>
<td>13,826</td>
</tr>
<tr>
<td>Bonds and notes payable</td>
<td><strong>$1,063,377</strong></td>
<td><strong>$1,105,447</strong></td>
</tr>
</tbody>
</table>

Principal and interest payments relating to $11,462 and $13,826 of bonds and notes outstanding at August 31, 2006 and 2005, respectively, will be funded by payments from New York University Hospitals Center (NYUHC). A receivable has been recorded for these amounts (see Note 4).

On September 9, 2004, DASNY issued $54,785 of Series 2004A bonds, $53,775 of Series 2004B-1 bonds and $44,750 of Series 2004B-2 bonds (collectively, the 2004 bonds) on behalf of the University. The proceeds of the 2004 bonds are being used to reimburse the University for costs incurred in connection with the acquisition of a building in Manhattan and to pay for the costs of reconstruction, renovation and deferred maintenance and purchase of equipment and information systems for certain facilities at the Washington Square campus and certain other properties in Manhattan. The 2004A bonds will mature serially from July 1, 2014 through July 1, 2034 and bear interest at rates ranging from 3.5% to 5.0%. The 2004B-1 and 2004B-2 bonds are variable auction rate bonds on which the interest rate is reset at the end of each auction rate period. Such bonds will mature serially from July 1, 2014 through July 1, 2034 and may be redeemed without premium, in whole or in part, one day after the end of any auction rate period.

The fair value of bonds and notes payable is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the University for the debt with the same remaining maturities. The carrying value and market value of the University’s bonds and notes payable were $1,063,377 and $1,130,851, respectively, at August 31, 2006.

The principal amounts outstanding for bonds and notes payable at August 31, 2006 and 2005 are as follows:

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Description</th>
<th>Principal Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dormitory Authority of the State of New York (DASNY)</td>
<td>Series 1998A bonds, with interest rates ranging from 5.0% to 6.0%, maturing serially through July 2027 (including premium of $16,994 and $17,673 in 2006 and 2005, respectively)</td>
<td>$226,524 $222,607</td>
</tr>
<tr>
<td></td>
<td>Series 2001A bonds, with interest rates ranging from 5.25% to 5.7%, maturing serially through July 2015 (including premium of $3,265 and $3,628 in 2006 and 2005, respectively)</td>
<td>91,420 99,614</td>
</tr>
<tr>
<td></td>
<td>2001 Series 1 bonds, with interest rates ranging from 4.4% to 5.5%, maturing serially through July 2040 (including premium of $8,009 and $8,244 in 2006 and 2005, respectively)</td>
<td>128,009 128,244</td>
</tr>
<tr>
<td></td>
<td>2001 Series 2 bonds, with interest rates ranging from 4.0% to 5.5%, maturing serially from July 2011 through July 2041 (net of discount of $164 and $168 in 2006 and 2005, respectively)</td>
<td>94,136 94,132</td>
</tr>
<tr>
<td></td>
<td>Series 2003A bonds, with interest rates ranging from 1.5% to 5.0%, maturing serially through July 2011 (including premium of $4,322 and $5,196 in 2006 and 2005, respectively)</td>
<td>69,628 83,966</td>
</tr>
<tr>
<td>Issuer</td>
<td>Description</td>
<td>Principal Outstanding</td>
</tr>
<tr>
<td>----------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Series 2003B bonds, with fixed interest rates</td>
<td>29,177</td>
</tr>
<tr>
<td></td>
<td>at 5.0%, maturing in July 2011 (including premium of $2,302</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and $2,763 in 2006 and 2005, respectively)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Series 2004A bonds, with interest rates ranging from 3.5% to 5.0%, maturing</td>
<td>55,988</td>
</tr>
<tr>
<td></td>
<td>serially from July 2014 through July 2034 (including premium of $1,203</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and $1,247 in 2006 and 2005, respectively)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Series 2004B bonds, with variable interest rates</td>
<td>98,525</td>
</tr>
<tr>
<td></td>
<td>based on the current weekly auction rate at the time of payment, maturing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>serially from July 2014 through July 2034</td>
<td></td>
</tr>
<tr>
<td>Industrial Development Agency</td>
<td>NYCIDIA Series 2001 bonds, with interest rates ranging from 4.1% to 5.4%,</td>
<td>62,770</td>
</tr>
<tr>
<td></td>
<td>maturing serially from July 2011 through July 2041 (net of discount of $1,440</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and $1,481 in 2006 and 2005, respectively)</td>
<td></td>
</tr>
<tr>
<td>Student Loan Marketing Association</td>
<td>Term loans, 7.0% and 8.4%, due August 2012 and December 2013, respectively</td>
<td>176,613</td>
</tr>
<tr>
<td>Other bonds, loans, and notes</td>
<td>Various, with interest rates ranging from 3.0% to 16.5%, due through November</td>
<td>20,587</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total amounts outstanding</td>
<td>$1,063,377</td>
</tr>
</tbody>
</table>

Interest expense on long-term debt totaled $56,457 and $55,242 for the years ended August 31, 2006 and 2005, respectively. This excluded $2,517 and $4,186 of capitalized interest (net of income earned on deposits with bond trustees) for the years ended August 31, 2006 and 2005, respectively, which is included in land, buildings and equipment, net.

**Future Principal Payments**: The aggregate required principal payments on all bonds and notes payable for each of the next five fiscal years, and to maturity, are as follows:

<table>
<thead>
<tr>
<th>Year ending August 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$33,584</td>
</tr>
<tr>
<td>2008</td>
<td>35,150</td>
</tr>
<tr>
<td>2009</td>
<td>45,592</td>
</tr>
<tr>
<td>2010</td>
<td>37,196</td>
</tr>
<tr>
<td>2011</td>
<td>37,196</td>
</tr>
<tr>
<td>Thereafter</td>
<td>813,777</td>
</tr>
<tr>
<td>Total principal payments</td>
<td>$1,028,885</td>
</tr>
<tr>
<td>Unamortized premiums and discounts, net</td>
<td>34,492</td>
</tr>
<tr>
<td></td>
<td>$1,063,377</td>
</tr>
</tbody>
</table>
Retirement Plans

Substantially all University employees are covered by retirement programs. These plans include various defined contribution plans and multi-employer defined benefit plans, and two university-sponsored defined benefit plans. The University contributes to its defined contribution and multi-employer defined benefit plans based on rates required by union or other contractual arrangements. Expenses related to the University's defined contribution plans were $57,135 and $52,237 in 2006 and 2005, respectively. Contributions to multi-employer retirement plans totaled $2,663 and $2,795 for the years ended August 31, 2006 and 2005, respectively.

Contributions to defined benefit plans are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Contributions to the two university-sponsored defined benefit plans are made in amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the University may deem appropriate, from time to time. Pension benefits under these two plans are based on participants' final average compensation levels and years of service. The measurement dates for the two university-sponsored defined benefit plans are August 31 and June 30. Effective December 15, 2005, the School of Medicine adopted an amendment to the by-laws of its defined benefit plan that froze the benefits to which vested and non-vested participants are entitled. The amendment also closed the plan to new participants. The plan amendment resulted in a decrease in the benefit obligation of $8,217.

PLANS' FUNDED STATUS The following table provides information with respect to the defined benefit plans as of and for the years ended August 31, 2006 and 2005:

<table>
<thead>
<tr>
<th>Change in benefit obligation:</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$248,787</td>
<td>$192,494</td>
</tr>
<tr>
<td>Service cost</td>
<td>7,739</td>
<td>9,249</td>
</tr>
<tr>
<td>Interest cost</td>
<td>13,106</td>
<td>12,431</td>
</tr>
<tr>
<td>Actuarial (gain) loss</td>
<td>(29,496)</td>
<td>39,785</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(6,089)</td>
<td>(5,002)</td>
</tr>
<tr>
<td>Plan amendment</td>
<td>(8,217)</td>
<td>-</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(488)</td>
<td>(170)</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>$225,342</td>
<td>$248,787</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in fair value of plan assets:</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$142,622</td>
<td>$112,894</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>11,983</td>
<td>13,881</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>15,340</td>
<td>21,019</td>
</tr>
<tr>
<td>Benefit paid</td>
<td>(6,089)</td>
<td>(5,002)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(488)</td>
<td>(170)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>$163,577</td>
<td>$142,622</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reconciliation of funded status:</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded status</td>
<td>$61,765</td>
<td>$106,165</td>
</tr>
<tr>
<td>Unrecognized actuarial loss</td>
<td>(39,265)</td>
<td>(82,048)</td>
</tr>
<tr>
<td>Unrecognized net asset at transition</td>
<td>269</td>
<td>537</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>(1,867)</td>
<td>(2,558)</td>
</tr>
<tr>
<td>Accrued pension benefit cost</td>
<td>20,962</td>
<td>22,096</td>
</tr>
<tr>
<td>Minimum pension liability adjustment</td>
<td>32,797</td>
<td>40,997</td>
</tr>
<tr>
<td>Intangible asset (included in other assets)</td>
<td>-</td>
<td>2,558</td>
</tr>
<tr>
<td>Accrued pension benefit cost recognized</td>
<td>$43,759</td>
<td>$65,561</td>
</tr>
</tbody>
</table>

Weighted average assumptions as of August 31
(Washington Square, School of Medicine):
Discount rate | 6.25%, 6.15% |
Rate of increase in compensation levels | 3.50%, 4.00%, 4.00%, 4.00% |
The benefit obligation disclosed above represents the actuarial present value of future payments to plan participants based upon the pension benefit formula. In calculating the value, the participants' compensation levels are projected to retirement. The accumulated benefit obligation differs from the projected benefit obligation above in that it includes no assumption about future compensation levels. It represents the actuarial present value of future payments to plan participants for service rendered prior to that date, using current and past compensation levels. The accumulated benefit obligation for the plans was $202,639 and $208,184 for the years ended August 31, 2006 and 2005, respectively.

In 2005, the accumulated benefit obligation with respect to the University's defined benefit pension plans exceeded those plans' assets by more than the actuarially determined accrued pension cost. This situation required an adjustment to the minimum pension liability of $21,219 in 2005, which is reported as a non-operating charge to unrestricted net assets. In 2006, the plan assets increased relative to the benefits obligation, resulting in a decrease in the additional minimum pension liability of $18,110.

**NET PERIODIC BENEFIT COST**

<table>
<thead>
<tr>
<th>Components of net periodic benefit cost:</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$ 7,739</td>
<td>$ 9,249</td>
</tr>
<tr>
<td>Interest cost</td>
<td>13,106</td>
<td>12,431</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(11,856)</td>
<td>(10,266)</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>691</td>
<td>2,312</td>
</tr>
<tr>
<td>Recognized actuarial gain</td>
<td>5,602</td>
<td>461</td>
</tr>
<tr>
<td>Amortization of transition asset</td>
<td>(269)</td>
<td>(269)</td>
</tr>
<tr>
<td><strong>Net periodic benefit cost</strong></td>
<td>$ 14,413</td>
<td>$ 13,918</td>
</tr>
</tbody>
</table>

**Weighted average assumptions as of August 31**
(Washington Square, School of Medicine):
- Discount rate: 5.25%, 5.50%, 6.25%, 6.50%
- Rate of increase in compensation levels: 4.00%, 4.00%, 4.00%, 4.00%
- Expected long-term rate of return on plan assets: 8.00%, 8.25%, 8.25%, 8.25%

**PLAN ASSETS** The plans' investment objectives seek a positive long-term total rate of return after inflation to meet the University's current and future plan obligations. Asset allocations for the plans combine tested theory and informed market judgments to balance investment risks with the need for high returns. The expected long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, weighting the asset class returns by the plans' investment in each class, and taking into account expected volatility and correlation between the returns of various asset classes.

The plans' asset allocations as of August 31, 2006 and 2005, by asset category are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>58%</td>
<td>59%</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>Real estate</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

**CONTRIBUTIONS** Annual contributions are determined by the University, based upon calculations prepared by the plans' actuaries. Expected contributions for the 2007 fiscal year are $24,909.

**BENEFIT PAYMENTS** The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<table>
<thead>
<tr>
<th>Year ending August 31</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 7,810</td>
<td>8,411</td>
<td>9,136</td>
<td>10,649</td>
<td>11,070</td>
<td>72,898</td>
</tr>
</tbody>
</table>
Other Postretirement Benefits

The University provides certain health care and life insurance benefits for eligible retired employees. University employees may become eligible for these benefits if they reach the age and service requirements of the plan while working for the University. In 2006, the School of Medicine adopted an amendment to its postretirement benefit plan which tiered the deductibles and increased participant copayments. This change resulted in a decrease in the benefit obligation of $13,848. The costs related to these plans are accrued during the period the employees provide service to the University. Information with respect to these plans as of and for the years ended August 31, 2006 and 2005 is as follows:

PLANS' FUNDED STATUS

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in benefit obligation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$286,972</td>
<td>$259,728</td>
</tr>
<tr>
<td>Service cost</td>
<td>12,711</td>
<td>12,347</td>
</tr>
<tr>
<td>Interest cost</td>
<td>13,626</td>
<td>14,623</td>
</tr>
<tr>
<td>Plan amendment</td>
<td>(13,848)</td>
<td>—</td>
</tr>
<tr>
<td>Actuarial (gain) loss</td>
<td>(31,107)</td>
<td>17,399</td>
</tr>
<tr>
<td>Benefits paid, net</td>
<td>(9,072)</td>
<td>(8,323)</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>259,276</td>
<td>286,972</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>(17,062)</td>
<td>(16,059)</td>
</tr>
<tr>
<td>Funded status</td>
<td>241,584</td>
<td>270,913</td>
</tr>
<tr>
<td>Unrecognized actuarial loss</td>
<td>(32,390)</td>
<td>(77,342)</td>
</tr>
<tr>
<td>Accrued postretirement benefits</td>
<td>$209,194</td>
<td>$192,671</td>
</tr>
</tbody>
</table>

Weighted average assumptions as of August 31:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.00%</td>
<td>5.50%</td>
</tr>
<tr>
<td>Projected retiree health-care cost trend rate</td>
<td>8.00%</td>
<td>9.00%</td>
</tr>
<tr>
<td>Ultimate retiree health-care cost trend</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year ultimate trend rate is achieved</td>
<td>2014</td>
<td>2013</td>
</tr>
</tbody>
</table>

NET PERIODIC BENEFIT COST

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Components of net periodic benefit cost:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$12,711</td>
<td>$12,547</td>
</tr>
<tr>
<td>Interest cost</td>
<td>13,026</td>
<td>14,623</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>664</td>
<td>2,659</td>
</tr>
<tr>
<td>Return on plan assets</td>
<td>(1,399)</td>
<td>(1,365)</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$25,602</td>
<td>$28,464</td>
</tr>
</tbody>
</table>

Weighted average assumptions as of August 31:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Expected long-term rate of return</td>
<td>8.25%</td>
<td>8.25%</td>
</tr>
<tr>
<td>Projected retiree health-care cost trend rate</td>
<td>8.00%</td>
<td>9.00%</td>
</tr>
<tr>
<td>Ultimate retiree health-care cost trend</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year ultimate trend rate is achieved</td>
<td>2014</td>
<td>2013</td>
</tr>
</tbody>
</table>

In 2006, the effect of a 1% change in the health care cost trend rate is as follows:

<table>
<thead>
<tr>
<th></th>
<th>1% increase</th>
<th>1% decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on net periodic benefit cost</td>
<td>$5,775</td>
<td>$4,471</td>
</tr>
<tr>
<td>Effect on postretirement benefit obligation</td>
<td>40,857</td>
<td>(33,248)</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$46,572</td>
<td>($28,777)</td>
</tr>
</tbody>
</table>
PLAN ASSETS  The plan's investment objectives seek a positive long-term total rate of return after inflation to meet the University's current and future plan obligations. The asset allocation for the plan combines tested theory and informed market judgments to balance investment risks with the need for high returns.

The expected long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and correlation between the returns of various asset classes.

The plan's assets were primarily invested in cash as of August 31, 2006 and 2005.

BENEFIT PAYMENTS  The following benefit payments (net of retiree contributions), which reflect the effects of the Medicare Act and expected future service, as appropriate, are expected to be paid:

<table>
<thead>
<tr>
<th>Year ending August 31</th>
<th>Benefit payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 16,290</td>
</tr>
<tr>
<td>2008</td>
<td>11,036</td>
</tr>
<tr>
<td>2009</td>
<td>11,773</td>
</tr>
<tr>
<td>2010</td>
<td>12,665</td>
</tr>
<tr>
<td>2012-2016</td>
<td>13,549</td>
</tr>
<tr>
<td>Thereafter</td>
<td>85,081</td>
</tr>
</tbody>
</table>

Asset Retirement Obligation

Upon adoption of FIN 47 in 2006, the University recognized asset retirement obligations on future events, such as the abatement of asbestos, lead-based paint and petroleum bulk storage tank removal from buildings, and recorded a cumulative effect of a change in accounting principle of $79,752. The cumulative effect of the adoption of FIN 47 reflects the accretion of the liability and depreciation of the related asset component from the asset retirement obligation at September 1, 2005. As of August 31, 2006, $9,819 ($10,241 at beginning of year less $422 current year depreciation) of asset retirement costs, net of accumulated depreciation, has been included in land, buildings, and equipment. An asset retirement obligation of $95,181 ($89,993 obligation at beginning of year plus $5,188 current year accretion) was also recorded as of August 31, 2006.

Cumulative Effect of Change in Accounting Principle:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land, buildings and equipment</td>
<td>$  19,397</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(9,156)</td>
</tr>
<tr>
<td>Asset retirement obligation</td>
<td>(89,993)</td>
</tr>
<tr>
<td><strong>Total cumulative effect</strong></td>
<td>$(79,752)</td>
</tr>
</tbody>
</table>

Current Year Effect on Operating Expenses:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accretion of asset retirement obligation</td>
<td>$  5,188</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>422</td>
</tr>
<tr>
<td><strong>Total current year effect</strong></td>
<td>$  5,610</td>
</tr>
</tbody>
</table>

Obligations with Financial Institutions

During 2003, the University entered into a line of credit (LOC) for an amount not to exceed $50,000. The LOC bears interest at the prime rate plus 0.5% and is due on demand. As of August 31, 2006 and 2005, no amounts were outstanding under the LOC.

Grants and Contracts

Grants and contracts revenues represent reimbursements of costs incurred in direct support of research activities. Additionally, such sponsored grants and contracts generally provide for the recovery of indirect costs supporting the research effort. Indirect costs, included in grants and contracts revenues, are recovered at rates established in advance by the University through negotiations with the Federal government and other private sponsors and amounted to $74,066 and $73,500 for the years ended August 31, 2006 and 2005, respectively.
Hospital Affiliations

Certain services are shared between the University and New York University Hospitals Center (NYUHC). Hospital affiliations revenue relating to NYUHC includes $40,979 and $29,981 for the years ended August 31, 2006 and 2005, respectively. As of August 31, 2006 and 2005, accounts and loans receivable includes $3,503 and $7,941, respectively, relating to these agreements. The University also has an agreement with NYUHC relating to fees generated from Global Transplant services. Accounts and loans receivable at August 31, 2006 and 2005 include $154 and $501, respectively, due from NYUHC, related to this activity.

Debt service associated with bonds and notes payable attributable to NYUHC (see Note 8) is being funded by NYUHC. A receivable equal to the NYUHC-related debt ($11,462 and $13,826 at August 31, 2006 and 2005, respectively) is included in accounts and loans receivable (see Note 4).

The University also has an affiliation agreement with The New York City Health and Hospitals Corporation (HHC) to provide general care and mental health services at Bellevue Hospital Center and Government Diagnostic and Treatment Center. This agreement was effective through June 30, 2005. A new contract that will terminate on June 30, 2008 has been negotiated. Hospital affiliations revenue relating to HHC includes $89,136 and $83,763 for the years ended August 31, 2006 and 2005, respectively.

Allocated Expenses

Certain expenses incurred by the University are allocated to specific program and support service activities on the basis of utilization of the underlying assets. Expenses included in this allocation are operation and maintenance of plant, interest on indebtedness, and depreciation and amortization. The adoption of FIN 47 in 2006 resulted in a $5,610 increase in total depreciation and amortization (see Note 11). These expenses, which are included in total operating expenses, for the years ended August 31, 2006 and 2005 are presented below:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th></th>
<th>2005</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Operation and</td>
<td>Interest on</td>
<td>Depreciation</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>Maintenance of</td>
<td>Indebtedness</td>
<td>and Amortization</td>
<td></td>
</tr>
<tr>
<td>Instruction and other academic programs</td>
<td>$ 57,083</td>
<td>$ 19,098</td>
<td>$ 46,195</td>
<td>$123,376</td>
</tr>
<tr>
<td>Research and other sponsored programs</td>
<td>19,214</td>
<td>5,138</td>
<td>14,315</td>
<td>38,668</td>
</tr>
<tr>
<td>Patient care</td>
<td>1,329</td>
<td>629</td>
<td>1,101</td>
<td>3,059</td>
</tr>
<tr>
<td>Libraries</td>
<td>4,619</td>
<td>570</td>
<td>3,592</td>
<td>8,781</td>
</tr>
<tr>
<td>Student services</td>
<td>13,159</td>
<td>177</td>
<td>10,410</td>
<td>23,746</td>
</tr>
<tr>
<td>Institutional services</td>
<td>15,074</td>
<td>2,537</td>
<td>11,568</td>
<td>29,179</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>48,664</td>
<td>28,288</td>
<td>36,584</td>
<td>113,536</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$159,642</strong></td>
<td><strong>$56,437</strong></td>
<td><strong>$123,765</strong></td>
<td><strong>$339,864</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Operation and</th>
<th>Interest on</th>
<th>Depreciation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maintenance of</td>
<td>Indebtedness</td>
<td>and Amortization</td>
<td></td>
</tr>
<tr>
<td>Instruction and other academic programs</td>
<td>$ 54,018</td>
<td>$ 19,075</td>
<td>$ 40,591</td>
<td>$113,684</td>
</tr>
<tr>
<td>Research and other sponsored programs</td>
<td>19,403</td>
<td>4,015</td>
<td>13,014</td>
<td>36,732</td>
</tr>
<tr>
<td>Patient care</td>
<td>1,531</td>
<td>503</td>
<td>982</td>
<td>3,016</td>
</tr>
<tr>
<td>Libraries</td>
<td>4,335</td>
<td>499</td>
<td>3,207</td>
<td>8,041</td>
</tr>
<tr>
<td>Student services</td>
<td>12,931</td>
<td>174</td>
<td>9,862</td>
<td>22,967</td>
</tr>
<tr>
<td>Institutional services</td>
<td>13,109</td>
<td>2,340</td>
<td>9,366</td>
<td>24,815</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>46,906</td>
<td>27,976</td>
<td>33,694</td>
<td>108,576</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$151,984</strong></td>
<td><strong>$55,242</strong></td>
<td><strong>$110,626</strong></td>
<td><strong>$317,852</strong></td>
</tr>
</tbody>
</table>
### Components of Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at August 31, 2006 and 2005:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions and earnings for operating purposes</td>
<td>$235,695</td>
<td>$214,383</td>
</tr>
<tr>
<td>Contributions for buildings and equipment</td>
<td>65,136</td>
<td>63,778</td>
</tr>
<tr>
<td>Annuity trust agreements</td>
<td>18,573</td>
<td>15,855</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>8,282</td>
<td>7,809</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$327,896</strong></td>
<td><strong>$301,825</strong></td>
</tr>
</tbody>
</table>

In 2006, the University determined it was named as the sole beneficiary in a charitable lead trust created in 2005. Accordingly, restricted gift revenue was recorded in the amount of $18 million when the amounts were determined in 2006.

Permanently restricted net assets at August 31, 2006 and 2005 are retained in perpetuity with investment return available to support the following activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program support</td>
<td>$242,059</td>
<td>$220,402</td>
</tr>
<tr>
<td>Faculty and staff salaries</td>
<td>462,919</td>
<td>429,167</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>214,953</td>
<td>194,947</td>
</tr>
<tr>
<td>Library books</td>
<td>11,219</td>
<td>11,203</td>
</tr>
<tr>
<td>Research and sponsored programs</td>
<td>36,002</td>
<td>34,104</td>
</tr>
<tr>
<td>Buildings and equipment</td>
<td>3,379</td>
<td>3,188</td>
</tr>
<tr>
<td>Student Loans</td>
<td>655</td>
<td>627</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$971,188</strong></td>
<td><strong>$893,038</strong></td>
</tr>
</tbody>
</table>

### Commitments and Contingencies

In the normal course of business, the University leases facilities under operating leases. Minimum lease payments under these agreements over the next five years and thereafter are as follows:

<table>
<thead>
<tr>
<th>Year ending August 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$96,059</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>84,222</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>78,211</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>58,944</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>58,543</td>
<td></td>
</tr>
<tr>
<td>Thereafter</td>
<td>291,166</td>
<td></td>
</tr>
</tbody>
</table>

The University is a defendant in various legal actions arising out of the normal course of its operations and amounts expended by the University under government grants and contracts are subject to audit by government agencies. In addition, amounts received for patient care from Medicare and Medicaid are subject to audit. Although the final outcome of such actions and audits cannot be determined, management believes that eventual liability, if any, will not have a material effect on the University's consolidated financial position.

The University has historically maintained close clinical and academic relationships with New York University Hospitals Center (NYUHC). Currently, NYUHC provides services to the School of Medicine on a fee-for-service basis. In the coming year, the University will be reviewing potential new governance structures for NYUHC, including, among others, whether NYUHC will become a “stand-alone” entity with a self-perpetuating board or whether the University would become the sole member of NYUHC.
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B.S., M.S., Ph.D.
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Executive Vice President
(to July 2006)

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Vice President for Human Resources

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Dean, Steinhardt School of Education

Mary Schmid Campbell
Dean, Tisch School of the Arts; Associate Provost for the Arts

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Leonard Boxer
Chairman, Real Estate
Department, Stroock & Stroock & Lavan LLP

Kevin R. Brine
Managing Director, Brine Management, LLC

Arthur L. Carter
President, Utilities and Industries Management Corporation

Evan Cheselet
Partner, Cravath, Swaine & Moore, LLP

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BBA, CPA
Associate Treasurer

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