Cornell University 2005–2006 Financial Report

We are pleased to present Cornell University's fiscal year 2006 financial statements and to highlight some of the changes in reporting requirements that had an impact on the current year. We are providing this overview in an effort to make the financial statements more informative for our readers.

ACCOUNTING AND AUDITING: STANDARDS AND GUIDELINES - A BUSY YEAR

Two major bodies set relevant accounting and auditing guidelines and standards. The Financial Standards Accounting Board (FASB) has the leading role in the establishment of generally accepted accounting principles (GAAP) for companies and exempt organizations in the United States. The American Institute of Certified Public Accountants (AICPA), through its Auditing Standards Board (ASB), has the leading role in setting auditing standards for non-publicly traded companies, including exempt organizations.

In the post-Sarbanes-Oxley (SOX) environment, FASB and the ASB have been busy issuing new guidelines and interpretations of prior pronouncements. Their focus is broad, but some specific areas of concern are internal controls, proper valuation of assets, and appropriate recording of liabilities (even those that will not be paid until the distant future).

Internal Controls

The internal control environment has been a major focus from legislators, regulatory boards, and institutions themselves. To comply with the 2002 SOX legislation, publicly traded companies now must include, as part of their filings with the Securities and Exchange Commission, a management report on the company's internal controls in the area of financial reporting. Although not required by law or regulation, Cornell has included a Management Responsibility Report in its financial statements for 2006.

Cornell's policies and procedures are designed to support a sound internal control environment. "Business Service Centers" were established to improve operating efficiencies and to enhance the control environment. In addition, Cornell University's Audit Office is conducting comprehensive reviews of internal controls for key areas and systems that have a significant impact on financial statements. The reviews of the Alumni Affairs and Development, Weill Cornell Medical College's patient billing, and the Treasurer's systems have been completed, and the review of the Human Resources/Benefits and Payroll systems is in process.

Although Cornell is exempt from requirements mandated by SOX, reviews by the Audit Office, comprehensive university policies and procedures, and voluntary "SOX certification" all demonstrate a strong and ongoing commitment to best practices for sound and effective internal controls.

Valuation of Assets

In August 2005, the AICPA issued an auditing interpretation entitled "Auditing the Investments in Securities Where a Readily Determinable Fair Value Does Not Exist" (AU 9332). The guidance emphasizes that receipt by an auditor of a confirmation from the investment manager at fiscal year end "... does not in and of itself constitute adequate audit evidence with respect to the valuation assertion."

Cornell's methods for valuing alternative investments include procedures other than merely obtaining information from the investment manager. This fiscal year, Cornell and its external auditor KPMG presented an education session to the Audit Committee on alternative investments. This session outlined Cornell's procedures for valuation, and explained the requirements for auditors outlined in AU 9332.

> "Although Cornell is exempt from Sarbanes-Oxley (legislation), reviews by the Audit Office, comprehensive policies and procedures, and voluntary "SOX certification" all demonstrate (Cornell's) strong commitment to best practices (in) internal controls."

Note 2 of the financial statements, consistent with prior years, addresses valuation and emphasizes that alternative investments "... are generally less liquid than other investments and the values reported by the general partner or investment manager may differ from the values that would have been reported had a ready market for those securities existed." In the current year, this information has been highlighted in a separate paragraph.

Recording of Liabilities

One of FASB's many objectives is to ensure that users of financial statements have sufficient information to evaluate an organization's financial strength. Toward that end, FASB issued Interpretation No. 47: Accounting for Conditional Asset Retirement Obligations (FIN 47). This provided additional guidance for FASB Statement 143: Accounting for Asset Retirement Obligations. FIN 47 reflected FASB's concern about the diversity of practices that exist for recognition of liabilities when there is a clear, legal obligation to perform an activity (such as asbestos removal), but where the timing of the activity is uncertain.

Under FIN 47, applicable for fiscal year 2006, the entity rolls back the clock to the date of the law or regulation that mandated the activity, and calculates and records a "cumulative effect adjustment" or "catch-up" entry. The cumulative effect adjustment is not displayed as a current year operating expense because this would compromise the timing principle and distort current year operations.

In 2006, Cornell recorded a cumulative effect adjustment for a change in accounting principle of approximately $17 million in the net asset section of the *Statement of Activities*. The corresponding liability is recorded in accrued expenses. Cornell has highlighted the changes related to FIN 47 in the Notes to Financial Statements, specifically Notes 1K and 5.

In addition, Cornell has disclosed its future minimum lease payments under operating lease agreements (Note 8 and Table 11). The present value of these future payments has not been recorded as a liability on the financial statements because this is not required by generally accepted accounting principles.

GOVERNMENT REGULATIONS AND EMERGING ISSUES

Cornell works closely with peer institutions and professional organizations, such as the National Association of College and University Business Officers (NACUBO), the Council on Government Relations (COGR) and the National Association of College and University Attorneys (NACUA) to provide information about the potential impact of proposed laws and regulations on higher education.

Based on these collaborative efforts, universities succeeded in reducing the negative impact that export licensing restrictions could have on research. Universities also successfully lobbied the Internal Revenue Service (IRS) to include on its 2006-07 Priority Guidance Plan the issue of private business use of facilities financed with tax-exempt bonds.

CURRENT INITIATIVES

Financial Systems

Most research universities, including Cornell, are devoting significant resources to systems initiatives. Shortly after fiscal year end, Cornell upgraded its HR/Payroll and Contributor Relations systems to the Oracle/PeopleSoft 8.9 release. This upgrade was essential for Cornell to operate on a version fully supported by the vendor.

In addition, a team of experts has been working throughout the year on the PeopleSoft/Oracle Student Services System. The modules include prospect, recruitment, admissions, student records, academic advisement, financial aid, student financials, self service, and data delivery. The system is intended for phased implementation, beginning in fiscal year 2007 and ending in fiscal year 2008.

"Universities also successfully lobbied the IRS to include on its 2006-07 Priority Guidance Plan the issue of private business use of facilities financed with tax-exempt bonds."

The Kuali Financial System Project, a collaborative effort between Cornell and its higher education partners to develop a suite of financial system applications, made substantial progress during fiscal year 2006. Cornell has almost completed the work on its Chart of Accounts for the general ledger. This is a major milestone because the Chart of Accounts is the cornerstone of the general ledger, which is the foundation of the entire project.

In fall 2006, with Cornell's participation, the partnership will begin work on the Kuali research administration system, using as its starting point the design of a core system developed by a peer institution. Leveraging this system design will reduce the costs of overall development without compromising improvements required by the partners.

FINANCIAL YEAR IN REVIEW

The year ended June 30, 2006 was a year of strong financial performance. Cornell's total revenues were $3.0 billion compared with $2.5 billion in fiscal year 2004-05. Net assets increased by $715 million compared to $390 million in the prior year. As of June 30, 2006, the university's total assets were $8.4 billion, total liabilities were $1.8 billion, and total net assets were $6.6 billion.

Net assets represent the wealth or net worth of a not-for-profit entity that has accumulated over time and are a key measure of the organization's ability to carry out its mission and strategic goals. At June 30, 2006, Cornell's net assets were $6.6 billion, a growth of 12 percent from $5.9 billion in the previous year. The current year increase is net of the cumulative effect adjustment of $17 million for future environmental remediation costs required by FIN 47. Cornell's continued growth in net assets as well as its total net assets are important for the institution's financial strength to carry out its goals, albeit approximately 34 percent of these net assets have donor restrictions.

Investments and Endowment

The investment portfolio, representing approximately 63 percent of total assets, and the current year growth of $670 million, or 14.6 percent, contributed significantly to the overall growth in net assets. The market value of the investment portfolio at June 30, 2006 was $5.3 billion compared to $4.6 billion at June 30, 2005. This year's increase of $670 million is substantially greater than last year's increase of $439 million.

Table 3A in Notes to the Financial Statements provides information on total investments at fair value by type of investment. The limited partnership investments, also referred to as alternative investments because they do not trade on a public market, represent 52 percent of the investment portfolio at June 30, 2006 compared to 44 percent at June 30, 2005.

In fiscal year 2005-06, the return on investments, net of management and custody fees, was approximately 16.1 percent compared to 13.6 percent in the prior year. Based on the performance described above, it is not surprising that the market value per unit of the Long-Term Investment Pool (LTIP) experienced significant growth. At June 30, 2006, the value was $55.42 compared to the prior year of $50.11, or a 10.6 percent increase compared to 7.7 percent in the prior year. The table on the following pages shows the value of the LTIP over the last 10 years. Growth over that period, from $36.71 to $55.42 per share, represents an annual compound rate of approximately 4.2 percent net of the distributions from the pool. The June 30, 2006 LTIP unit value of $55.41 does not yet exceed the highest per-unit value of $58.16 achieved in fiscal year 1999-00.

"Cornell's continued growth in net assets ... is important for the institution's financial strength to carry out its goals."

Cornell's policy on distributions from the LTIP is based on total return rather than on annual cash yield, as explained in Note 2C in Notes to the Financial Statements. In fiscal year 2005–06, the payout rate was $2.30 per share, which resulted in a distribution of $169 million compared to the payout rate in fiscal year 2004-05 that was $2.25 per share, resulting in a distribution of $153.5 million. The payout rate for fiscal year 2006-07 has been raised to $2.42 per share, a 5.2 percent increase. The sources for the payout are also described in Note 2C of the Notes to the Financial Statements.

The value of the university's endowment is a critical component of its financial strength to meet long-term goals. Table 2 in Notes to the Financial Statements shows the value of Cornell's endowment based on generally accepted accounting principles. The total value of the endowment is $4.4 billion at June 30, 2006 compared to $3.9 billion in the prior year. The increase of $525 million compares to a prior year increase of $500 million. The endowment, as a percentage of total investments, is approximately 83 percent for both the current and prior year. It is important to note that the value of the endowment reported in the financial statements differs from that reported to NACUBO for its longitudinal survey, primarily because the latter report does not include pledges.

Receivables

Contributions receivable, net of the allowance for doubtful accounts, increased by approximately $24 million, or 7.6 percent. The net receivable at June 30, 2006 is $336 million compared to $312 million in the prior year. This increase is due primarily to Cornell's decision to reduce its threshold for recording pledges from $250,000 to $5,000—a decision that was possible, in part, because of the implementation of the new Contributor Relations System. Payments received on existing pledges in the current fiscal year were approximately $123 million, which compares to $125 million in the prior year.

Total receivables, net of allowances, increased by only 2 percent. There was a decrease of approximately $9 million in government receivables, resulting from Cornell's efforts with government agencies to ensure that payments were received by June 30. There was also a slight decrease in student loans receivable to $64 million from $66 million in the prior year. Cornell continues to have an excellent loan

LONG-TERM INVESTMENT POOL

Source and applications (in millions)
Beginning market value
Gifts and other additions
Withdrawals
Realized and unrealized gains (losses)
Ending market value
Unit value at year end (in dollars) *

* Unit values adjusted for 2 for 1 unit split on July 1, 1998

collection record. For the 2005-06 fiscal year, its Perkins Loan Cohort Default rate was 1.78 percent, up from 1 percent in the prior year. The national rate was 8.12 percent as of June 30, 2005 (the most current rate available).

Capital Projects and Debt

The university's strategic plan targets significant growth in buildings to enhance Cornell's ability to accomplish its teaching and research missions and provide quality of life for its students. The value of land, buildings, and equipment

> "Cornell continues to have an excellent loan collection record. Its Perkins Loan Cohort Default rate was 1.78 percent (compared to) the national rate (of) 8.12 percent."

increased by $213 million, from $1.9 billion to $2.1 billion, or 11.4 percent compared to 8.3 percent in the prior year. This growth is represented by many projects, but the major project capitalized in the current year for approximately $31 million was the second house in the West Campus Residential Initiative (House Project 2). The largest component in the overall growth in property, plant and equipment is construction in progress, which represents projects that will be capitalized in subsequent years. The value at the beginning of the year was $273 million, and at the end of the year, $435 million. Construction in progress reflects Cornell's ongoing plans for major expenditures to build and renovate property, plant, and equipment.

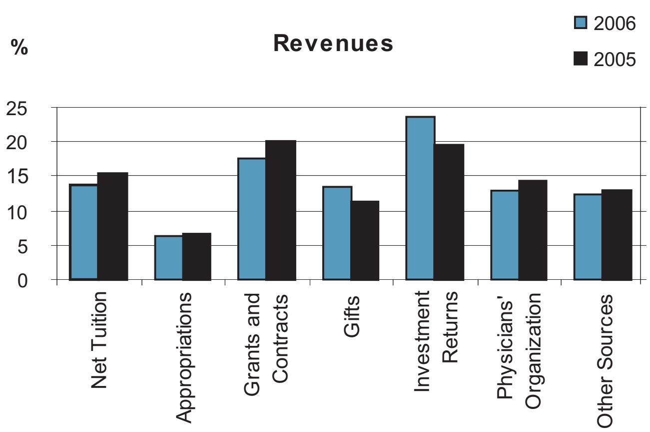
Building construction must be funded when it takes place; Cornell cannot defer payment to contractors and others. Cornell is funding a portion of this building growth with debt, which also grew in fiscal year 2005-06 by $126 million, or 19 percent, compared to last year's increase of $25 million, or 4.1 percent. Total debt at June 30, 2006 is $756 million compared to $631 million in the prior year. In 2006, the university issued $250 million in tax-exempt bonds, primarily to redeem commercial paper and Revenue Bonds 1996. Cornell also increased its working capital line of credit from $50 million to $75 million, and is using its debt capacity for both operating needs and capital projects. The university's bond rating by Moody's continues to be AA, demonstrating the institution's capacity for the debt it has assumed.

1995–96	1996–97	1997–98	1998-99	1999-00	2000–01	2001–02	2002-03	2003-04	2004-05	2005-06
$ 1,424.2	$ 1,748.4	$ 2,043.4	$ 2,427.6	$ 2,760.3	$ 3,288.0	$ 3,043.9	$ 2,750.4	$ 2,720.8	$ 3,070.2	$ 3,623.2
77.4	72.8	98.9	147.8	146.4	135.4	132.5	124.3	88.9	234.8	202.0
(23.2)	(25.9)	(32.1)	(40.5)	(55.5)	(84.6)	(110.5)	(128.1)	(116.4)	(37.1)	(33.7)
270.0	248.1	317.4	225.4	436.8	(294.9)	(315.5)	(25.8)	376.9	355.3	388.9
$ 1,748.4	$ 2,043.4	$ 2,427.6	$ 2,760.3	$ 3,288.0	$ 3,043.9	$ 2,750.4	$ 2,720.8	$ 3,070.2	$ 3,623.2	$ 4,180.4
$ 36.71	$ 41.51	$ 47.65	$ 51.16	$ 58.16	$ 51.85	$ 44.95	$ 42.65	$ 46.51	$ 50.11	$ 55.42

Revenue and Expenses

The increase in net assets, described previously, translates into simple, but very good news: revenues exceeded expenditures. Information detailing the large increase in net assets of $715 million for fiscal year 2005–06 and the increase of $390 million for fiscal year 2004–05 is shown in the *Statement of Activities* and is also summarized in Table 1 of the Notes to the Financial Statements.

The overall growth in revenue of $481 million, or 18.9 percent, compared to $36 million, or 1.5 percent in the prior year, is based primarily on the increase in gains on investments, revenues from the Faculty Practice Plan, revaluation of split interest agreements reflected in Other Sources, and contribution revenue. Approximately 30 percent of the $123 million increase in contribution revenue is related to Cornell's reduction in the pledge threshold. The following graph shows the proportional distribution of revenue compared to fiscal year 2004-05.



Cornell succeeded in managing its expenses: overall expenses increased only by 6.4 percent. The largest increases were benefit expense, utilities, and interest expense. The benefit expense includes, among other items, expenses for medical claims incurred, but not yet paid; workers' compensation claims incurred, but not yet paid; vacation accruals for employees; and medical benefits for retirees and those on long-term disability. The following graph shows the proportional distribution of expenses compared to fiscal year 2004-05.

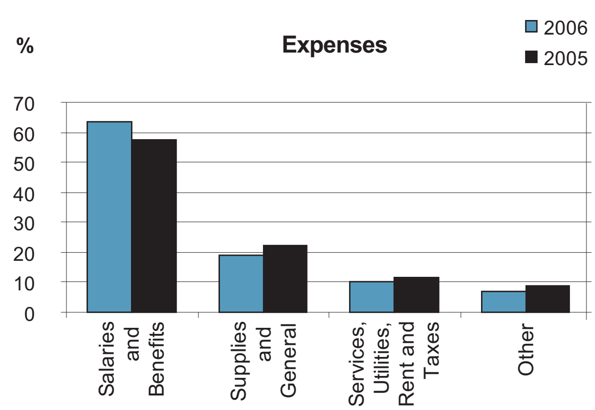


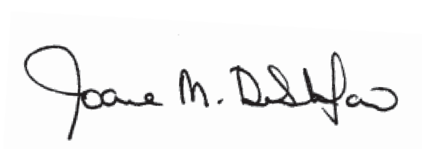
Table 11 has been added to the Notes to the Financial St-ments to reflect future minimum-lease payments for Cornell's operating leases primarily related to real property. Table 12 shows expenses by functional category, which enables readers to review, in particular, those categories related to charitable missions. During fiscal year 2005-06, university expenses showed the largest increases in academic support of $27 million, or 13.9 percent, and institutional support of $30 million, or 13.6 percent.

Cash Flows

The *Statement of Cash Flows* details the planned decrease in cash. Cornell continues to target a reduction in cash as an operating goal. The operating activities of the university provided cash of approximately $105 million. Net cash provided by financing activities was $263 million, reflecting the additional issuance of debt, less principal payments.

Summary

Fiscal year 2005-06 was a strong year financially for Cornell. Cornell benefited from substantial investment returns, continued diverse sources of university revenues, and ongoing efforts to manage expenses. As indicated in the beginning, an entity's net assets, particularly a trajectory of increases in those net assets, provides the financial strength necessary to undertake that entity's mission. Cornell's financial results for fiscal year 2005-06 demonstrate a sound financial structure for undertaking and advancing our strategic goals.



Joanne M. DeStefano
Vice President for Financial Affairs
and University Controller

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Cornell University is responsible for the preparation, integrity and fair presentation of the financial statements that have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management. The University also prepared the other information in this annual report and is responsible for its accuracy and consistency with the financial statements.

The financial statements have been audited by the independent accounting firm KPMG LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The University believes that all representations made to KPMG LLP during its audit were valid and appropriate. The independent auditors' report expresses an independent opinion on the fairness of presentation of these financial statements.

The University maintains a system of internal controls over financial reporting that is designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weaknesses in order to permit management to take appropriate, corrective action on a timely basis.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of the internal control system can change with circumstances.

The Trustees of Cornell University through its Audit Committee, comprised of trustees not employed by the University, are responsible for engaging independent accountants and meeting with management, internal auditors, and the independent accountants to ensure that all are carrying out their responsibilities. Both internal auditors and the independent accountants have full and free access to the Audit Committee.

David J. Skorton
President
Cornell University

Stephen T. Golding
Executive Vice President for
Finance and Administration

Joanne M. DeStefano
Vice President for Financial
Affairs and Controller

Independent Auditors' Report

The Board of Trustees
of Cornell University:

We have audited the accompanying statement of financial position of Cornell University as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2005 financial statements and, in our report dated September 6, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cornell University as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Rochester, New York
September 28, 2006

STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2006 (*IN THOUSANDS*)
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2005)

		General Operations	Physical Capital	Financial Capital	**2006** Total	**2005** Total
	Assets					
1	Cash and cash equivalents (note 2)	$ 10,993		$ 12,096	$ 23,089	$ 54,543
2	Collateral for securities loaned (note 2B)			232,455	232,455	197,090
3	Investments (notes 2 & 4)	493,159	$ 206,988	4,560,302	5,260,449	4,589,949
4	Accounts receivable, net (note 3)					
5	Government	43,709			43,709	52,521
6	Patient	53,004			53,004	55,705
7	Contributions	231,067	40,596	63,962	335,625	311,949
8	Other	107,030	24	5,358	112,412	110,227
9	Inventories and deferred charges	54,149	8,578		62,727	46,212
10	Student loans receivable (note 3C)	45,059		18,648	63,707	65,526
11	Land, buildings, and equipment, net (note 5)		2,085,076		2,085,076	1,872,241
12	Funds held in trust by others (note 1D)			111,752	111,752	93,868
13	Total assets	$ 1,038,170	$ 2,341,262	$ 5,004,573	$ 8,384,005	$ 7,449,831
	Liabilities					
14	Accounts payable and accrued expenses	$ 203,217	$ 26,252		$ 229,469	$ 236,960
15	Securities loan agreements payable (note 2B)			$ 232,455	232,455	197,090
16	Deposits and deferred revenues	77,664	950		78,614	63,578
17	Deferred benefits (note 7)	197,972		62,830	260,802	207,439
18	Funds held in trust for others (note 1E)			93,404	93,404	99,291
19	Living trust obligations (note 1C)			103,585	103,585	99,409
20	Bonds, mortgages, & notes payable (note 6)	63,705	692,759		756,464	630,778
21	Refundable government grants	43,857			43,857	44,820
22	Total liabilities	586,415	719,961	492,274	1,798,650	1,579,365
	Net Assets (Note 1B)					
23	Unrestricted					
24	Available for operations	79,629			79,629	154,321
25	Designated for student loans	6,938			6,938	3,683
26	Designated for plant		450,621		450,621	247,133
27	Net investment in plant		1,085,606		1,085,606	1,071,459
28	Appreciation on true endowments			1,471,324	1,471,324	1,213,267
29	Funds functioning as endowments			1,257,443	1,257,443	1,117,523
30	Temporarily restricted					
31	Available for operations	365,188			365,188	280,662
32	Designated for plant		85,074		85,074	138,947
33	Funds functioning as endowments			100,464	100,464	98,332
34	Funds subject to living trust agreements			52,495	52,495	48,351
35	Funds held in trust			42,969	42,969	42,917
36	Permanently restricted					
37	Student loan funds			34,520	34,520	32,084
38	True endowments			1,386,935	1,386,935	1,295,065
39	Funds subject to living trust agreements			40,123	40,123	34,216
40	Funds held in trust			126,026	126,026	92,506
41	Total net assets	451,755	1,621,301	4,512,299	6,585,355	5,870,466
42	Total liabilities and net assets	$ 1,038,170	$ 2,341,262	$ 5,004,573	$ 8,384,005	$ 7,449,831

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006 (*IN THOUSANDS*)
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2005)

		General Operations		Physical Capital	
		Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
	Revenues and other additions				
1	Tuition and fees	$ 592,084			
2	Scholarship allowance	(177,999)			
3	Net tuition and fees	414,085			
4	State appropriations	146,084		$ 25,547	
5	Federal appropriations	16,755			
6	Federal grants and contracts	464,525			
7	State and local grants and contracts	22,364		15,744	
8	Private grants and contracts	29,466			
9	Contributions	108,029	$ 152,405	4,829	$ 51,247
10	Interest and dividends	51,580	1,940	3,512	248
11	Net realized gain/(loss) on investments	66,503			
12	Net unrealized gain/(loss) on investments	31,359	7	21,950	
13	Medical Physicians' Organization	388,871			
14	Enterprises and subsidiaries	156,932			
15	Educational departments	68,023		24	
16	Other sources	133,227	(201)	1,598	6,019
17	Total revenues	2,097,803	154,151	73,204	57,514
18	Investment payout	90,922	61,450	7	
19	Net assets released from restrictions	123,776	(123,776)	10,147	(10,147)
20	Capital investments/(withdrawals)	(223,465)	(7,299)	286,092	(101,240)
21	Total revenues and other additions	2,089,036	84,526	369,450	(53,873)
	Expenses (Note 9)				
22	Salaries and wages	1,158,685			
23	Employee benefits	303,471			
24	Purchased services	116,210			
25	Supplies and general	431,979			
26	Utilities, rents, and taxes	121,544			
27	Interest expense	28,584			
28	Depreciation			128,246	
29	Other			6,377	
30	Total expenses	2,160,473		134,623	
31	Change in net assets, before cumulative effect	(71,437)	84,526	234,827	(53,873)
32	Cumulative effect of change in accounting principle (notes 1K & 5)			(17,192)	
33	Change in net assets, after cumulative effect	(71,437)	84,526	217,635	(53,873)
34	Total net assets, beginning of year	158,004	280,662	1,318,592	138,947
35	Total net assets, end of year	$ 86,567	$ 365,188	$ 1,536,227	$ 85,074

The accompanying notes are an integral part of the financial statements.

Financial Capital					
Unrestricted	Temporarily Restricted	Permanently Restricted	**2006** Total	**2005** Total	
			$ 592,084	$ 559,426	1
			(177,999)	(167,240)	2
			414,085	392,186	3
			171,631	153,649	4
			16,755	16,300	5
			464,525	447,644	6
			38,108	29,102	7
			29,466	32,397	8
$ 11,037	$ 13,984	$ 68,031	409,562	286,730	9
32,316	11,238	2,164	102,998	100,068	10
168,212	52,356	31,489	318,560	388,563	11
245,846	(211)	(2,005)	296,946	5,297	12
			388,871	362,997	13
			156,932	152,771	14
			68,047	65,038	15
317	436	9,295	150,691	113,550	16
457,728	77,803	108,974	3,027,177	2,546,292	17
(90,929)	(61,450)				18
					19
31,178	(10,025)	24,759			20
397,977	6,328	133,733	3,027,177	2,546,292	21
			1,158,685	1,090,846	22
			303,471	257,830	23
			116,210	115,910	24
			431,979	425,781	25
			121,544	102,623	26
			28,584	24,138	27
			128,246	137,159	28
			6,377	1,961	29
			2,295,096	2,156,248	30
397,977	6,328	133,733	732,081	390,044	31
			(17,192)		32
397,977	6,328	133,733	714,889	390,044	33
2,330,790	189,600	1,453,871	5,870,466	5,480,422	34
$ 2,728,767	$ 195,928	$ 1,587,604	$ 6,585,355	$ 5,870,466	35

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2006 (*IN THOUSANDS*)
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2005)

		2006	2005
	Cash flows from operating activities		
1	Increase in net assets	$ 714,889	$ 390,044
	Adjustments to reconcile change in net assets to net cash provided by operating activities		
	Nonoperating items		
2	Contributions for physical and financial capital	(148,880)	(159,406)
3	Income restricted for financial capital	(11,458)	(2,181)
	Non-cash items		
4	Depreciation	128,246	137,159
5	Net realized (gains)/losses on investments	(318,560)	(388,563)
6	Net unrealized (gains)/losses on investments	(296,946)	(5,297)
7	Loss on equipment disposals	4,105	2,334
8	Provision for receivable allowances	8,390	15,387
9	Accretion of bond discount	1,367	858
10	Cumulative effect of change in accounting principle	17,192	
11	Other noncash items	1,738	1,128
	Change in assets and liabilities		
12	Accounts receivable	(22,533)	61,675
13	Inventories and deferred charges	(14,927)	(5,849)
14	Accounts payable and accrued expenses	(24,683)	36,767
15	Deposits and deferred revenues	15,036	(296)
16	Deferred benefits	53,363	19,149
17	Refundable government grants	(963)	1,243
18	Net cash provided by operating activities	105,376	104,152
	Cash flows from investing activities		
19	Proceeds from the sale and maturities of investments	10,351,677	10,992,133
20	Purchase of investments	(10,406,671)	(11,037,473)
21	Acquisition of land, buildings, and equipment (net)	(340,649)	(274,665)
22	Student loans granted	(15,331)	(14,921)
23	Student loans repaid	16,932	15,886
24	Change in funds held in trust for others	(5,887)	12,751
25	Net cash used in investing activities	(399,929)	(306,289)
	Cash flows from financing activities		
	Resources for long-term purposes		
	Contributions restricted to		
26	Investment in true endowment	53,508	90,718
27	Investment in physical capital	51,538	32,755
28	Investment subject to living trust agreements	18,833	7,161
29	Income restricted for financial capital	11,458	2,181
30	Contributions designated for funds functioning as endowments	20,463	20,547
	Other financing activities		
31	Principal payments of bonds, mortgages, and notes payable	(278,324)	(81,973)
32	Proceeds from issuance of bonds, mortgages, and notes payable	402,643	105,938
33	Bond issuance costs incurred	(3,312)	
34	Change in obligations under living trust agreements	(13,708)	19,598
35	Net cash provided by financing activities	263,099	196,925
36	Net change in cash and cash equivalents	(31,454)	(5,212)
37	Cash and cash equivalents, beginning of year	54,543	59,755
38	Cash and cash equivalents, end of year	$ 23,089	$ 54,543

The accompanying notes are an integral part of the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Organization

From a fiscal viewpoint, Cornell University consists of three major organizational units: Endowed Ithaca, which includes the endowed colleges, the central university administration, and the enterprise and service operations for the Ithaca campus; Contract Colleges at Ithaca (colleges operated by Cornell on behalf of New York State); and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences (Medical College) in New York City. All three units are subject to the common administrative authority and control of the Cornell University Board of Trustees, and operate as self-supporting entities (net assets relating to one of the units are generally not available to the other units). The only legal limitations pertain to certain donor-restricted funds and funds of the contract colleges. Specifically, the laws establishing the contract colleges at Ithaca prohibit other segments of the university from using funds attributable to those colleges. Except as specifically required by law, the contract and endowed colleges at Ithaca are, to the extent practicable, governed by common management principles and policies determined within the private discretion of Cornell University. In addition to the three major organizational units, eight subsidiary corporations are included in the financial statements. All significant intercompany transactions and balances are eliminated in the accompanying consolidated financial statements.

B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, and presented in accordance with the AICPA Audit and Accounting Guide for Not-for-Profit Organizations. The standards for general purpose, external financial statements of not-for-profit organizations require a statement of financial position, a statement of activities, and a statement of cash flows, and are displayed based on the concept of "net assets." The audit guide requires presentation of net assets and revenues, expenses, gains, and losses in three categories based on the presence or absence of donor-imposed restrictions. The categories are Permanently Restricted, Temporarily Restricted, and Unrestricted Net Assets.

Permanently restricted net assets include the historical dollar amount of gifts, including pledges and trusts, as well as certain gains, all of which are explicitly required by donors to be permanently retained. Pledges and trusts are reported at their estimated fair value on the date of donation.

Temporarily restricted net assets include gifts, pledges, trusts, income, and gains that can be expended, but for which the restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (e.g., capital projects, pledges to be paid in the future, and life income funds).

Unrestricted net assets are the remaining net assets of the university, including appreciation on true endowments where the donor restrictions are deemed to have been met.

Expiration of donor restrictions is reported in the *Statement of Activities* as "net assets released from restriction." The expiration is recorded as a reclassification from temporarily restricted net assets to unrestricted net assets. If the expiration of the donor restriction occurs in the same fiscal year as the contribution, the transaction is recorded as unrestricted revenue in that fiscal year and a reclassification of net assets is not required.

Table 1 shows a summary of the balances and changes in net assets by restriction class for the years ended June 30, 2006 and June 30, 2005.

Classifying and aggregating items with similar characteristics into reasonably homogeneous groups, and separating items with differing characteristics is a basic reporting practice that increases the usefulness of the information. Cornell has chosen to separate financial statement activity into three primary groups: general operations, physical capital, and financial capital.

General operations includes the financial activities and balances that are the result of carrying on the primary and supporting missions of the university.

Physical capital includes the activities and balances related to the acquisition, renewal, and replacement of investment in the university's infrastructure.

Financial capital includes balances or activity related to amounts set aside for the long-term economic stability of the university. Table 2 shows the composition of financial capital net assets.

As of June 30, 2006, the university's true endowment net assets at fair value consisted of approximately 20 percent for unrestricted purposes, 26 percent for student aid, 42 percent for instruction, and 12 percent for other donor-specified purposes. On June 30, 2005, the breakdown was 21 percent for unrestricted purposes, 26 percent for student aid, 41 percent for instruction, and 12 percent for other donor-specified purposes.

C. Living Trust Agreements

The university's living trust agreements with donors consist primarily of charitable gift annuities, charitable remainder trusts, and pooled income funds for which the university serves as trustee. Assets held in trust are either separately invested or included in the university's investment pools in accordance with trust instruments. Contribution revenue and the assets related to living trust agreements, net of related liabilities, are classified as increases in temporarily restricted net assets or permanently restricted net assets. Liabilities associated with charitable gift annuities and charitable remainder trusts represent the present value of the expected payments to the beneficiaries over the term of the agreement. Pooled income funds are recognized at the net present value expected to be received at a future date. Gains or losses resulting from changes in actuarial assumptions and accretion of the discount are recorded as increases or decreases in the respective net asset categories in the *Statement of Activities*. The discount rates for the fiscal years 2005-06 and 2004-05 were 5 percent and 6 percent, respectively.

D. Funds Held in Trust by Others

Funds held in trust represent resources neither in the possession nor under the control of the university. These funds are administered by outside trustees, with the university deriving income or residual interest from the assets of the funds. Funds held in trust by others are recognized at the estimated

TABLE 1. SUMMARY OF CHANGE IN NET ASSETS (*IN THOUSANDS*)

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
1	Net assets at June 30, 2004	$ 3,435,007	$ 694,467	$ 1,350,948	$ 5,480,422
	2005 change in net assets:				
2	General operations	(182,443)	(57,937)		(240,380)
3	Physical capital	117,338	(32,897)		84,441
4	Financial capital	437,484	5,576	102,923	545,983
5	Total change in net assets	372,379	(85,258)	102,923	390,044
6	Net assets at June 30, 2005	3,807,386	609,209	1,453,871	5,870,466
	2006 change in net assets:				
7	General operations	(71,437)	84,526		13,089
8	Physical capital	217,635	(53,873)		163,762
9	Financial capital	397,977	6,328	133,733	538,038
10	Total change in net assets	544,175	36,981	133,733	714,889
11	Net assets at June 30, 2006	$ 4,351,561	$ 646,190	$ 1,587,604	$ 6,585,355

TABLE 2. COMPOSITION OF FINANCIAL CAPITAL NET ASSETS AT JUNE 30, 2006 (*IN THOUSANDS*)
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2005)

		Net Asset Classification				
		Unrestricted	Temporarily Restricted	Permanently Restricted	**2006**	**2005**
1	True endowment and appreciation on true endowments, including contributions receivable of $63,962	$ 1,471,324		$ 1,386,935	$ 2,858,259	$ 2,508,332
2	Funds functioning as endowment	1,257,443	$ 100,464		1,357,907	1,215,855
3	Funds held in trust		42,969	126,026	168,995	135,423
4	Total university endowment	2,728,767	143,433	1,512,961	4,385,161	3,859,610
5	Funds subject to living trust agreements		52,495	40,123	92,618	82,567
6	Student loan funds			34,520	34,520	32,084
7	Total	$ 2,728,767	$ 195,928	$ 1,587,604	$ 4,512,299	$ 3,974,261

fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the university is notified of its existence. Contribution revenues related to these trusts for the fiscal years 2005-06 and 2004-05 were $9,782,018 and $2,335,839, respectively.

E. Funds Held in Trust for Others

Financial capital includes funds invested by the university as custodian for others. Independent trustees are responsible for the funds and for the designation of income distribution. The Center Fund, which benefits the New York Weill Cornell Medical Center of the New York Presbyterian Hospital, is one of those organizations, with assets having a market value of $96,823,772 and $87,337,236 at June 30, 2006 and June 30, 2005, respectively. Of these investments, a portion of the future income stream has been directed in perpetuity to benefit the Medical College. As such, the present value of the income stream, calculated to be $57,240,540 and $41,553,749 at June 30, 2006 and June 30, 2005, respectively, has been recorded in net assets of financial capital.

F. Medical Physicians' Organization

The Medical Physicians' Organization provides the management structure for the practice of medicine in an academic medical center. Physician members generate clinical-practice income from their professional services to patients, in addition to conducting instructional and research activities. Medical Physicians' Organization fees are reflected as university revenues. Expenses of the clinical practice, including physician compensation, administrative operations, and provision for uncollectable accounts, are reflected as university expenses. Net assets resulting from the activities of the Medical Physicians' Organization are designated for the respective clinical departments of the medical college.

G. Collections

Cornell's collections, which have been acquired through purchases and contributions since the university's inception, are recognized as capital assets in the *Statement of Financial Position*. Gifts of collection items are recorded, at fair value, as increases in net assets in the year in which the items are acquired.

H. Derivative Instruments and Hedging Activities

The university records the fair value of its derivatives related to its investment securities within the applicable portfolio. The change in the fair value of those derivatives is included in net unrealized gain/(loss) on investments in the *Statement of Activities*.

Derivative instruments related to the university's long-term debt are included in physical capital, accounts payable and accrued expenses on the *Statement of Financial Position*. The change in the fair value of the derivative instruments is also included in net unrealized gain/(loss) on investments in the *Statement of Activities* in the physical capital category.

I. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Actual results may differ from those estimates.

J. Comparative Financial Information

The *Statement of Activities* includes prior-year summarized information in total rather than by net asset class. Such information does not include sufficient detail to constitute a presentation of prior-year data in conformity with accounting principles generally accepted in the United States of America.

Accordingly, such information should be read in conjunction with the university's financial statements for the prior fiscal year, from which the summarized information was derived.

TABLE 3A. INVESTMENTS AT FAIR VALUE (*IN THOUSANDS*)

		2006	2005
1	Cash and cash equivalent holdings	$ 181,968	$ 222,722
	Equity securities		
2	Domestic	764,017	818,632
3	International	893,296	810,403
	Debt securities		
4	Domestic - government	245,277	302,701
5	Domestic - corporate debt securities	104,570	240,359
6	International - governments	44,513	80,857
7	International - corporate	31,550	25,315
8	Mortgages and other asset-backed securities	176,667	49,944
	Other investments		
9	Limited partnerships	2,756,548	2,014,184
10	Real estate	5,043	5,651
11	Other	57,000	19,181
12	Total investments	$ 5,260,449	$ 4,589,949

K. New Accounting Pronouncement

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47: Accounting for Conditional Asset Retirement Obligations (FIN 47), effective for fiscal years ending after December 15, 2005. FIN 47 is an interpretation of Statement of Financial Accounting Standards No. 143: Accounting for Asset Retirement Obligations. FIN 47 provides clarification about recognition of a liability for a conditional asset retirement obligation when the legal obligation to perform an activity exists and the fair value of the conditional asset retirement obligation can be reasonably estimated.

L. Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year presentation.

M. Income Taxes

The university is a not-for-profit organization as described in section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to the appropriate sections of the Internal Revenue Code.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. General Information

Investment policy of the university is established by the Investment Committee of the Board of Trustees. University investments are stated at fair value. The value of fixed-income and publicly traded equity securities is based upon quoted market prices and exchange rates, if applicable.

Private equities, real estate partnerships, and certain other nonmarketable securities are valued using current information obtained from the general partner or investment manager for the respective funds. The estimated values are reviewed and evaluated by the university. These investments are generally less liquid than other investments and the values reported by the general partner or investment manager may differ from the values that would have been reported had a ready market for these securities existed.

Fees paid to managers in fiscal years 2005-06 and 2004-05 for investing the university's portfolios amounted to approximately \$12,000,000 and \$9,700,000 respectively. The composition of investments at June 30, 2006 and June 30, 2005 are shown in Table 3A.

Investment income is recorded on the accrual basis, and purchases and sales of investment securities are reflected on a trade-date basis.

Realized and unrealized gains and losses on investments are accounted for in the group (General Operations, Physical Capital, or Financial Capital) holding the assets. Realized gains and losses are calculated on the average-cost basis. Income earned from investments or from services rendered is accounted for in the same group as the assets or service provider.

The university considers all instruments that bear an original maturity date of ninety days or less to be cash or a cash equivalent. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

B. Collateral Held for Investments Lent to Brokerage Firms

Investment securities having a fair value of \$224,499,245 and \$190,498,069 at June 30, 2006 and June 30, 2005, respectively, were lent to various brokerage firms. The loaned securities are returnable on demand and are collateralized by cash deposits. The university has recorded the fair value of the collateral received of \$232,454,827 and \$197,090,138 and an offsetting liability for the return of the collateral in Financial Capital on the *Statement of Financial Position* at June 30, 2006 and June 30, 2005, respectively. The collateral is invested in short-term securities, and income earned is credited as additional income to the investment pools.

TABLE 3B. INVESTMENT POOLS/CATEGORIES AT FAIR VALUE (*IN THOUSANDS*)

		2006	2005
1	Working capital	$ 22,735	$ 13,564
2	Intermediate-term (resources for spending in less than 3 years)	540,290	510,113
3	Long-term investment pool (resources held for 3 years or longer)	4,180,389	3,623,192
4	Separately invested securities	360,682	352,580
5	Life income fund pools	17,712	17,361
6	DASNY holdings	113,809	68,936
7	Other purposes of investment	24,832	4,202
8	Total investments	$ 5,260,449	$ 4,589,949

C. Investment Pools and Separately Invested Portfolios

The university maintains a number of investment pools, and invests the principal of certain funds separately. Table 3B shows the investments by university category or pool.

The Long-Term Investment Pool (LTIP) is a mutual fund-like vehicle used for investing the university's true endowment funds, funds functioning as endowment, and other funds that are not expected to be expended for at least three years. The objective is to achieve a total return, net of expenses, of at least 5 percent in excess of inflation, as measured by the Consumer Price Index, over rolling five-year periods. Table 4 summarizes certain information about the long-term investment pool.

The pool is divided into units that represent ownership. These units are determined based on the date of purchase and market value per unit. At June 30, 2006 and June 30, 2005, the market prices per unit were $55.42 and $50.11, respectively. The total return on the university's long-term investments, of which the LTIP is a component, was 16.1 percent for fiscal year 2005-06.

The university has a total return policy. Under this policy, a distribution is provided from the pool that is independent of the cash yield and investment changes occurring in a given year. This insulates investment policy from budgetary pressures and insulates the distribution from fluctuations in capital markets. Distributions from the pool are approved by the Board of Trustees as part of the financial planning process. The annual distribution is set so that, over time, a sufficient portion of the return is reinvested to maintain the purchasing power of the endowment, and to provide reasonable growth in support of program budgets.

For the year ended June 30, 2006, distributions for investment payout were $168,954,926 ($2.30 per unit), of which $152,378,262 supported general operations and physical capital. The remaining distribution of $16,576,664 was returned to principal or went to funds held in trust for others shown in the accompanying *Statement of Financial Position*. The distribution for 2006 comprised $45,193,379 in net investment income and $123,761,547 paid from accumulated gains. For the fiscal year ended June 30, 2005, the investment payout was $153,462,970 ($2.25 per unit). The distribution for 2005 comprised $49,588,912 in net investment income and $103,874,058 paid from accumulated gains.

At June 30, 2006, 145 of 5,155 true endowment funds invested in the LTIP had market values below book values by $723,033 on a total book value of $38,591,906 for those funds. The university holds significant unrestricted appreciation on endowments to offset this temporary decrease in value. The university has maintained these true endowment funds at their historical dollar values.

Separately invested securities consist of several types of funds that for legal or other reasons, or by request of the donor, could not participate in any of the investment pools.

TABLE 4. SUMMARY INFORMATION - LONG-TERM INVESTMENT POOL

		Fair Value (*in thousands*)	Cost (*in thousands*)	Net Change (*in thousands*)	Fair Value Per Unit	Number of Units
	Long-Term Investment Pool					
1	End of year	$ 4,180,389	$ 3,426,160	$ 754,229	$ 55.42	75,425,544
2	Beginning of year	$ 3,623,192	$ 3,153,016	$ 470,176	$ 50.11	72,302,273
3	Unrealized net gain for year			$ 284,053		
4	Realized net gain/(loss) for year			$ 235,603		
5	Net gain/(loss) for year			$ 519,656		

Life income fund pools consist of donated funds, the income from which is payable to one or more beneficiaries during their lifetime. On the termination of life interests, the principal becomes available for university purposes, which may or may not have been restricted by the donor.

D. Other Investments

Under the terms of certain limited partnership agreements, the university is obligated periodically to advance additional funding for private-equity and real estate investments. At June 30, 2006 and June 30, 2005, the university had commitments of approximately $1,083,357,000 and $718,861,000, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The university maintains sufficient liquidity in its investment portfolio to cover such calls.

The university has approved the use of derivatives by outside investment managers, based on investment guidelines negotiated at the time the manager was appointed. The derivatives in the investment portfolio at June 30, 2006 are used for three purposes: to adjust fixed income duration and rates, to create "synthetic exposures" to certain types of investments, and to hedge foreign currency fluctuations.

Derivatives are used as fixed income substitutes when the investment manager determines that using a derivative contract provides the least expensive and, therefore, potentially more profitable way of "exposing" the portfolio to opportunities for increased returns, rather than buying underlying securities directly. These transactions typically involve buying futures or swap contracts on U.S. Treasury securities or on foreign government securities. Commodity investments are used by the university to diversify the investment portfolio and as a general hedge against an inflationary economic environment that might reduce the value of the traditional stock and bond holdings in the portfolio. The most efficient means of creating these investments is through derivative contracts that rise or fall in price in direct correlation to the value of an underlying commodity index. In addition, derivative instruments are used to adjust the foreign currency exposure of the investment portfolio for securities whose prices are denominated in foreign currencies.

The university's investment guidelines require that the investment managers only use counterparties with very strong credit ratings for these derivatives. At June 30, 2006, the university recorded an unrealized gain of $5,768,000 compared to an unrealized loss of $10,403,000 for fiscal year June 30, 2005.

3. ACCOUNTS AND LOANS RECEIVABLE

A. Patient Accounts and Other

Patient accounts receivable at June 30, 2006 and June 30, 2005, are net of provisions for allowances and doubtful accounts of $91,797,208 and $85,056,142, respectively. Other accounts receivable, including student accounts, at June 30, 2006 and June 30, 2005 are net of allowances for doubtful accounts of $1,927,046 and $1,972,006, respectively.

B. Contributions

Contributions, which include unconditional written or oral promises to donate to the university in the future, are recognized when received. Contributions of approximately $335,625,000 and $311,949,000 representing the present value of future cash flows are recorded as receivables at June 30, 2006 and June 30, 2005, respectively. The corresponding revenue is assigned to the appropriate net asset category in the year the promise is received. The face value, discount, and allowance for contributions receivable are shown in Table 5. Conditional promises are recorded when donor stipulations are substantially met. At June 30, 2006 and 2005, conditional promises and donor intentions not reflected in the financial statements were approximately $128,502,000 and $111,366,000, respectively. Expenses related to fundraising activities amounted to approximately $34,201,000 and $31,023,000 for fiscal years 2005-06 and 2004-05, respectively.

TABLE 5. CONTRIBUTIONS RECEIVABLE (*IN THOUSANDS*)

		2006	2005
	Contributions expected to be realized		
1	In one year or less	$ 161,661	$ 132,918
2	Between one year and five years	227,282	191,376
3	More than five years	60,172	73,962
4	Gross contributions receivable	449,115	398,256
5	Discount (5.00% - 7.00%)	(95,826)	(69,889)
6	Allowance	(17,664)	(16,418)
7	Total discount and allowance	(113,490)	(86,307)
8	Net contributions receivable	$ 335,625	$ 311,949

TABLE 6. LAND, BUILDINGS, AND EQUIPMENT (*IN THOUSANDS*)

		Book value at June 30, 2005	Additions	Disposals and Closed Projects	Book value at June 30, 2006
1	Land, buildings, and improvements	$ 2,087,012	$ 114,519	$ (4,195)	$ 2,197,336
2	Furniture, equipment, books, and collections	798,146	68,964	(23,245)	843,865
3	Construction in progress	273,398	279,895	(118,192)	435,101
4	Total before accumulated depreciation	3,158,556	$ 463,378	$ (145,632)	3,476,302
5	Accumulated depreciation	(1,286,315)			(1,391,226)
6	Land, buildings and equipment, net	$ 1,872,241			$ 2,085,076

C. Student Loans

Student loans receivable at June 30, 2006 and June 30, 2005, are reported net of allowances for doubtful loans of $9,816,997 and $9,664,758, respectively. The allowance is intended to provide for loans, both in repayment status and not-yet-in-repayment status (borrowers are still in school or in the grace period following graduation), that may not be collected.

Determination of the fair value of student loans receivable could not be made without incurring excessive costs. These loans include donor-restricted and federally sponsored student loans that bear mandated interest rates and repayment terms, and are subject to significant restrictions on their transfer and disposition.

4. PLEDGED ASSETS AND FUNDS ON DEPOSIT

The Dormitory Authority of the State of New York (DASNY) and others hold investments in lieu of various required reserves. Physical capital assets including cash and United States government obligations of $34,171,814, and $40,396,178 at June 30, 2006 and June 30, 2005, respectively, are held by DASNY. They are used primarily for the retirement of debt in the future. The balances include the value of assets held in lieu of required reserves of $10,783,403 and $10,499,970 at June 30, 2006 and June 30, 2005, respectively. In addition, $77,546,238 and $25,250,195 of bond proceeds were on deposit for future project expenditures at June 30, 2006 and 2005, respectively. Escrow held by the Workers' Compensation Board of New York includes investment securities comprising United States government obligations of $103,950 and $104,107 at June 30, 2006 and June 30, 2005, respectively.

Assets in general operations for student loans include $2,090,784 and $3,289,665 at June 30, 2006 and June 30, 2005, respectively, on deposit with DASNY that are available for the retirement of debt in the future.

5. PHYSICAL CAPITAL

Physical plant and equipment are stated principally at cost on the date of acquisition or at fair value on the date of donation, net of accumulated depreciation. Depreciation is computed on a straight-line basis over the useful lives of the buildings (30–100 years), building components (20-25 years), and equipment (3–15 years). A full year of depreciation is taken in the year of acquisition, and no depreciation is taken in the year of disposal. Depreciation expense is reflected as a cost of physical capital.

Capital investments and withdrawals consist of net transfers to physical capital for principal payments on debt and the acquisition of capital assets.

Expenditures associated with the construction of new facilities are shown as construction in progress until the projects are completed. Land, buildings, and equipment are detailed in Table 6.

Gifts-in-kind of capital assets were approximately $4,538,000 and $8,225,000 for fiscal years 2005-06 and 2004-05, respectively.

Certain properties to which the university does not have title are included in physical capital at net book value as follows: (1) land, buildings, and equipment of the contract colleges aggregating $343,018,000 and $318,233,000 at June 30, 2006 and June 30, 2005, respectively, the acquisition cost of which was borne primarily by New York State and (2) land, buildings, and equipment for which title rests with government and corporate agencies aggregating $21,600,000 and $24,205,000 at June 30, 2006 and June 30, 2005, respectively.

Cornell has identified conditional asset retirement obligations for the costs of asbestos removal and disposal that will result from current plans to renovate and/or demolish certain buildings or from future remediation activities based on estimated dates. The fair value liability at June 30, 2006 was $18,051,000. The conditional asset retirement obligation at July 1, 2005 would have been $17,192,000 and was recorded in the current year as a cumulative effect adjustment for a change in accounting principle.

6. BONDS, MORTGAGES, AND NOTES PAYABLE

The balance outstanding, interest rates, and final maturity dates of the bonds and other debt as of June 30, 2006 and June 30, 2005, are summarized in Table 7.

The total annual debt service requirements for the next five fiscal years and thereafter are shown in Table 8. Interest expense paid during fiscal year 2005-06 and 2004-05 was approximately $27,217,000 and $23,281,000, respectively. Debt and debt service related to borrowings by New York State for the construction and renovation of facilities of the contract colleges are not included in the financial statements because they are not liabilities of the university.

Under agreement with DASNY, certain revenues, principally rental income from facilities financed by bond proceeds plus a portion of tuition, are pledged by the university to meet debt service requirements (see Note 4). Also, certain revenue bonds require compliance with an asset-to-liability ratio and an unencumbered securities-to-operating-expense ratio.

The fair value of the university's bonds, mortgages, and notes payable is approximately $710,655,000 and $628,418,000 at June 30, 2006 and June 30, 2005, respectively. The estimated fair value of bonds is based on quoted market prices for the same or similar issues. The market prices utilized reflect the amount a third party would pay to purchase the bonds. They do not reflect an additional liability to the university.

The university has five interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Net payments or receipts under the swap agreements are recorded as an adjustment to interest expense. Under three agreements in effect at June 30, 2006, the counter party pays the university a variable interest rate equal to the BMA index. The university will pay the counter party a fixed interest rate of 2.99 percent on a notional amount of $79,960,000 (expiring October 1, 2007); 4.52 percent on a notional amount of $42,780,000 (expiring July 1, 2030); and 4.33 percent on a notional amount of $15,390,000 (expiring July 1, 2010).

Under two agreements in effect at June 30, 2006, the counter party pays the university a variable rate equal to a percentage of the one month LIBOR rate. The university will pay the counter party a fixed interest rate of 4.63 percent on a notional amount of $ 78,615,000 (expiring July 1, 2030) and 3.51 percent on a notional amount of $92,100,000 (expiring July 1, 2033).

The university continues to issue tax-exempt commercial paper under an agreement entered into in fiscal year 1998-99. Under the agreement, a total of $490,000,000 of principal may be issued, with a maximum of $100,000,000 outstanding at any one time. The funds may be used for capital projects and equipment purchases for the Ithaca and Medical College campuses.

The university also has a $100,000,000 taxable commercial paper program to finance working capital, capital projects, and equipment purchases for the Ithaca and Medical College campuses.

In fiscal year 2005-06, the university issued $250,000,000 of fixed rate bonds. The proceeds were used to redeem $75 million of tax-exempt commercial paper and $40 million of taxable commercial paper. It also refunded all of the Cornell University Revenue Bonds, Series 1996 of approximately $64 million. The remaining proceeds will finance new construction projects and renovations.

The university remitted student loan prepayments to DASNY during fiscal year 2006 in the amount of $8.7 million. In effect, the prepayments were able to redeem the DASNY 1992 student loan bonds, originally to mature in 2009, escrow approximately $1.6 million of the DASNY 1993 student loans bonds and escrow approximately $5.2 million of the DASNY 1995 student loan bonds. The funds in escrow will be used to redeem bonds in July 2007 and July 2008 respectively.

The university increased the working capital line-of-credit from $50 million to $75 million for short-term cash flow needs in fiscal year 2006. As of June 30, 2006, $54.4 million was borrowed against the line-of-credit. The total $54.4 million is reflected in Table 8 as a principal payment in fiscal year 2007.

7. BENEFIT PLANS

A. Pension Plans

The university's employee pension plan coverage for Endowed Ithaca and the Medical College is provided by two basic types of plan: that based on a predetermined level of funding (defined contribution), and that based on a level of benefit to be provided (defined benefit). The primary plans for Endowed Ithaca and for exempt employees (those not subject to the overtime provisions of the Fair Labor Standards Act) at the Medical College are carried by the Teachers Insurance and Annuity Association and the College Retirement Equities Fund, which permit employee contributions.

Medical College non-exempt employees and certain non-exempt employees of Endowed Ithaca are covered by defined benefit plans. Certain accrued benefits and an appropriate amount of the university's pension reserves are frozen in connection with plan reorganizations.

In June 2006, the Board of Trustees voted to amend the Cornell University Retirement Plan for Non-Exempt Employees of the Endowed Colleges at Ithaca (NERP). The amendments require that surplus assets provide a pro-rata enhancement of benefits to all NERP participants and also provide for the termination of the frozen plan effective December 31, 2006.

The pension liabilities recognized by the university in connection with the frozen plans were established by charges to expenses in prior years to meet future retirement costs for current employees. Although the liabilities are considered internally funded, they are not intended to create a trust or fund in which any employee or former employee has any right or interest of any kind.

TABLE 7. BONDS, MORTGAGES, AND NOTES PAYABLE (*IN THOUSANDS*)

		Balance June 30, 2006	Balance June 30, 2005	Interest Rates	Maturity Date
	Physical Capital				
1	Dormitory Authority of the State of New York (DASNY)				
2	Revenue Bond Series				
3	1990B	$ 57,800	$ 58,300	1.71 to 3.80*	2025
4	1996		73,475	5.125	2006
5	2000A	59,960	61,535	2.99	2029
6	2000B	78,615	80,385	4.63	2030
7	2004	92,100	92,100	3.51	2033
8	2006	248,570		4.00 to 5.00	2035
9	Bond Series 1987B	11,760	13,010	11.11	2012
10	Tax-Exempt Commercial Paper	19,205	89,580	2.38 to 3.65*	2028
11	Taxable Commercial Paper	37,791	50,567	3.09 to 5.24*	
12	Industrial Development Agency				
13	2000	5,290	6,200	4.95 to 5.25	2011
14	2002A	42,780	42,845	4.52	2030
15	2002B	15,390	15,390	4.33	2015
16	Student Loan Marketing Association	5,635	5,915	5.75 to 6.50	2019
17	Urban Development Corporation	2,875	3,000	zero	2029
18	Capitalized leases				
19	312 College Ave	11,836	12,334	various	2020
20	Other	3,152	3,334	various	2007-2028
21	Total Physical Capital	692,759	607,970		
	General Operations				
22	DASNY Bond 1992 Capital Appreciation		1,897	6.75 to 6.80	2006
23	DASNY Bond 1993 Capital Appreciation	1,155	1,799	5.45 to 5.50	2007
24	DASNY Bond 1995 Capital Appreciation	8,150	9,112	5.70 to 6.15	2011
25	Working Capital Line-of-Credit	54,400	10,000	4.25 to 6.00	2007
26	Total General Operations	63,705	22,808		
27	Total Bonds, Mortgages, and Notes Payable	$ 756,464	$ 630,778		

** Rates presented are the actual rates paid during fiscal year 2005-06. These rates are variable based on market conditions.*

TABLE 8. ANNUAL DEBT SERVICE REQUIREMENTS (*IN THOUSANDS*)

		Principal				
	Year	Physical Capital	General Operations	Total	Interest	Total
1	2007	$ 18,216	$ 57,138	$ 75,354	$ 32,375	$ 107,729
2	2008	18,633	1,585	20,218	31,542	51,760
3	2009	22,613	4,982	27,595	29,817	57,412
4	2010	23,189		23,189	28,708	51,897
5	2011	23,793		23,793	27,575	51,368
6	Thereafter	586,315		586,315	321,829	908,144
7	Total	$ 692,759	$ 63,705	$ 756,464	$ 471,846	$ 1,228,310

In accordance with ERISA requirements for the defined benefit plans, the university must fund annually with an independent trustee an actuarially determined amount that represents normal costs plus amortization of prior-service costs over a forty-year period that began on July 1, 1976.

The defined benefit plans' funded status, amounts recognized in the university's *Statement of Financial Position*, asset allocations, calculation assumptions, and anticipated benefit payments are shown in Tables 9A and 9B.

The assets are invested for the sole benefit of the plans' beneficiaries. Consistent with that objective, investments are managed to maximize total return while maintaining a prudent limitation on risk. Risk mitigation is achieved by diversifying investments across multiple asset classes, by investing in high-quality securities and by permitting flexibility in the balance of investments in the permitted asset classes. The expected return on assets was derived based on long-term assumptions of inflation, real returns (which are primarily historically based), anticipated value added by the investment managers, and expected average asset class allocations.

Total pension costs of the Endowed Ithaca and Medical College plans for the year ended June 30, 2006 and June 30, 2005 amounted to $68,812,158 and $64,408,215, respectively.

TABLE 9A. DEFINED BENEFIT PENSION PLANS - BENEFIT OBLIGATIONS, PLAN ASSETS AND COST (*IN THOUSANDS*)

		2006			2005
		Endowed Ithaca*	Medical College	Combined	Combined
1	Accumulated benefit obligation at end of year	$ 19,072	$ 36,726	$ 55,798	$ 58,205
	Change in benefit obligation				
2	Projected benefit obligation at beginning of year	$ 21,004	$ 49,857	$ 70,861	$ 61,314
3	Service cost (benefits earned during the period)		3,450	3,450	2,655
4	Interest cost on projected benefit obligation	1,031	2,512	3,543	3,665
5	Actuarial (gain)/loss	(1,003)	(4,594)	(5,597)	7,408
6	Benefits paid	(1,960)	(2,576)	(4,536)	(4,181)
7	Projected benefit obligation at end of year	19,072	48,649	67,721	70,861
	Change in plan assets				
8	Fair value of plan assets at beginning of year	29,413	33,986	63,399	61,504
9	Actual return on plan assets	2,164	2,919	5,083	5,176
10	Employer contributions		900	900	900
11	Benefits paid	(1,960)	(2,576)	(4,536)	(4,181)
12	Fair value of plan assets at end of year	29,617	35,229	64,846	63,399
13	Funded status	10,545	(13,420)	(2,875)	(7,462)
14	Unrecognized prior service cost				
15	Unrecognized net actuarial loss/(gain) from past experience different from assumed	6,539	5,333	11,872	19,091
16	Net amount recognized - prepaid/(accrued) benefit cost	$ 17,084	$ (8,087)	$ 8,997	$ 11,629
	Components of net periodic benefit cost				
17	Service cost (benefits earned during the period)		$ 3,450	$ 3,450	$ 2,655
18	Interest cost	$ 1,031	2,512	3,543	3,666
19	Expected return on plan assets	(2,279)	(2,462)	(4,741)	(4,590)
20	Amortization of prior service cost				
21	Amortization of net (gain)/loss	664	616	1,280	685
22	Net periodic benefit cost/(income)	$ (584)	$ 4,116	$ 3,532	$ 2,416

**A frozen retirement plan for the non-exempt employees of the endowed colleges at Ithaca.*

TABLE 9B. DEFINED BENEFIT PENSION PLANS - BENEFIT OBLIGATIONS, PLAN ASSETS AND COST

Estimated future employer contributions (*in thousands*)

		Endowed Ithaca*	Medical College	Combined
1	2007		$ 3,000	$ 3,000

Estimated future benefit payments from the trust (*in thousands*)

		Endowed Ithaca	Medical College	Combined
2	2007	1,852	2,517	4,369
3	2008	1,811	2,638	4,449
4	2009	1,779	2,786	4,565
5	2010	1,740	2,781	4,521
6	2011	1,690	3,247	4,937
7	2012-2016	7,695	20,438	28,133

		2006		2005	
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Weighted-average assumptions used to determine net periodic benefit cost as of July 1				
8	Discount rate	5.00%	5.00%	6.00%	6.00%
9	Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
10	Rate of compensation increase	4.00%	6.10%	4.00%	6.10%
	Weighted-average assumptions used to determine benefit obligations at end of year				
11	Discount rate	6.00%	6.00%	5.00%	5.00%
12	Rate of compensation increase	4.00%	6.10%	4.00%	6.10%

Combined plan assets

		Target Allocation	Percentage of Plan Assets at June 30		Expected Return on Plan Assets	
	Asset category	2007	2006	2005	2006	2005
13	Equity securities	39-85%	61.0%	63.7%	9.25%	9.25%
14	Debt securities	15-55%	33.0%	31.1%	6.00%	6.00%
15	Real estate	1-5%	6.0%	5.2%	7.50%	7.50%
16	Total		100.0%	100.0%		

**A frozen retirement plan for the non-exempt employees of the endowed colleges at Ithaca.*

Employees of the contract colleges are covered under the New York State pension plans. Contributions to the state retirement system and other employee benefit costs are paid directly by the state. The amounts of the direct payments applicable to the university as revenue and expenditures are not currently determinable and are not included in the financial statements. The university reimburses the state for employee benefit costs on certain salaries, principally those associated with externally sponsored programs. The amount reimbursed to the state during the years ended June 30, 2006 and June 30, 2005, was $17,889,167 and $15,749,507, respectively, which are included in the expenses of general operations.

B. Postretirement Benefits Other Than Pensions

The university provides health and life insurance benefits for eligible retired employees and their dependents. Although there is no legal obligation for future benefits, the cost of postretirement benefits must be accrued during the service lives of employees. The university elected the prospective-transition approach and is amortizing the transition obligation over 20 years, through fiscal year 2012-13.

The plan assets for Endowed Ithaca and the Medical College are invested with an outside trustee. The trusts are invested with the objective of maximizing return, subject to tolerance of reasonable risk.

TABLE 10A. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS BENEFIT OBLIGATIONS, PLAN ASSETS AND COST (*IN THOUSANDS*)

		2006			2005
		Endowed Ithaca	Medical College	Combined	Combined
	Change in benefit obligation				
1	Benefit obligation at beginning of year	$ 285,688	$ 51,471	$ 337,159	$ 273,856
2	Service cost (benefits earned during the period)	11,695	4,429	16,124	10,642
3	Interest cost	14,447	3,045	17,492	15,234
4	Plan amendments				
5	Actuarial (gain)/loss	(44,486)	(1,351)	(45,837)	46,722
6	Benefits paid (outside of trust)	(8,120)	(2,085)	(10,205)	(9,295)
7	Benefit obligation at end of year	259,224	55,509	314,733	337,159
	Change in plan assets				
8	Fair value of plan assets at beginning of year	63,575	22,435	86,010	73,788
9	Actual return on plan assets	7,926	2,753	10,679	7,580
10	Employer contribution	4,863		4,863	4,642
11	Fair value of plan assets at end of year	76,364	25,188	101,552	86,010
12	Funded status	(182,860)	(30,321)	(213,181)	(251,149)
13	Unrecognized net transition obligation	18,675	6,835	25,510	29,154
14	Unrecognized prior service cost		903	903	1,215
15	Unrecognized net actuarial loss from past experience different from assumed	70,043	5,360	75,403	132,028
16	Prepaid/(accrued) postretirement benefit cost	$ (94,142)	$ (17,223)	$ (111,365)	$ (88,752)
	Components of net periodic postretirement benefit cost				
17	Service cost (benefits earned during the period)	$ 11,695	$ 4,429	$ 16,124	$ 10,642
18	Interest cost	14,447	3,045	17,492	15,234
19	Expected return on plan assets	(5,230)	(1,795)	(7,025)	(6,012)
20	Amortization of initial transition obligation	2,668	976	3,644	3,644
21	Amortization of prior service cost		313	313	313
22	Amortization of net (gain)/loss	6,333	800	7,133	2,842
23	Net periodic postretirement benefit cost/(income)	$ 29,913	$ 7,768	$ 37,681	$ 26,663
	Expected future employer contributions to trust				
24	2007	$ 5,093		$ 5,093	
	Estimated future benefit payments (employer paid)				
25	2007	$ 9,286	$ 2,466	$ 11,752	
26	2008	10,279	2,715	12,994	
27	2009	11,228	2,949	14,177	
28	2010	12,242	3,263	15,505	
29	2011	13,258	3,667	16,925	
30	2012-2016	82,655	24,196	106,851	
	Estimated future government subsidy amounts				
31	2007	$ 945	$ 293	$ 1,238	
32	2008	1,062	329	1,391	
33	2009	1,191	367	1,558	
34	2010	1,321	402	1,723	
35	2011	1,445	433	1,878	
36	2012-2016	9,488	2,869	12,357	

TABLE 10B. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS BENEFIT OBLIGATIONS, PLAN ASSETS AND COST (*IN THOUSANDS*)

		2006		2005	
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Weighted-average assumptions used to determine net periodic postretirement benefit cost as of July 1				
1	Discount rate	5.00%	5.00%	6.00%	6.00%
2	Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
	Weighted-average assumptions used to determine benefit obligations at end of year				
3	Discount rate	6.00%	6.00%	5.00%	5.00%
	Assumed health care cost trend rates at end of year				
4	Health care cost trend rate assumed for next year	9.00%	9.00%	10.00%	10.00%
5	Ultimate trend rate	5.00%	5.00%	5.00%	5.00%
6	Years to reach ultimate trend rate	4	4	5	5

		2006		2005	
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Effect of 1 percentage point change in assumption of health care cost trend rate				
	1-Percentage point increase				
7	Effect on total service cost and interest cost	$ 6,184	$ 1,486	$ 4,633	$ 924
8	Effect on accumulated postretirement benefit obligation as of June 30	$ 47,754	$ 8,293	$ 49,687	$ 6,789
	1-Percentage point decrease				
9	Effect on total of service and interest cost	$ (4,743)	$ (1,181)	$ (3,757)	$ (778)
10	Effect on accumulated postretirement benefit obligation as of June 30	$ (37,903)	$ (6,777)	$ (42,326)	$ (5,998)

Combined plan assets

		Target Allocation	Percentage of Plan Assets at June 30		Expected Return on Plan Assets	
	Asset category	2007	2006	2005	2006	2005
11	Equity securities	39-85%	75.0%	75.7%	9.25%	9.25%
12	Debt securities	15-55%	25.0%	24.3%	6.00%	6.00%
13	Real estate	0-5%	0.0%	0.0%	7.50%	7.50%
14	Total		100.0%	100.0%		

Risk is reduced through the use of multiple asset classes, high-quality securities and flexible permitted asset allocation within the authorized asset classes. The expected return on assets was derived based on long-term assumptions of inflation, real returns (which are primarily historically based), anticipated value added by the investment manager, and expected average asset class allocations.

Tables 10A and 10B set forth the funded status and asset allocations of the plans as of June 30, 2006 and June 30, 2005, the components of net periodic postretirement benefit costs, and the assumptions used in accounting for the plans during 2006 and 2005. The accrued postretirement benefit cost shown in Table 10A is $22,613,000 of current year unfunded cost, plus $88,752,000 of accumulated prior-year unfunded cost.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a prescription drug benefit known as "Medicare Part D" that also established a federal subsidy to sponsors of retiree health care benefit plans. The estimated future government subsidy amounts are reflected in Table 10A.

C. Postemployment Benefits

The university provides various benefits to former or inactive employees after employment, but before retirement. The expected costs of these benefits are recognized when they are earned, even though there may not be any legal requirement to continue the programs. Current year estimated costs are allocated among the expenses of general operations.

8. OPERATING LEASES

Cornell leases machinery, equipment and office space under operating leases expiring at various dates through August 31, 2025. The lease expenses for fiscal years 2006 and 2005 were $15,444,000 and $13,227,000 respectively. Table 11 shows future annual minimum lease payments.

9. FUNCTIONAL EXPENSES AND STUDENT AID

Table 12 shows expenses by functional category for general operations and physical capital. Expenses for operations and maintenance of facilities, depreciation, and interest have been allocated to functional categories using square-footage statistics. The amount allocated for operations and maintenance was approximately $138,221,000 for fiscal year 2005-06, and $135,882,000 for fiscal year 2004-05.

Institutionally provided student financial assistance that is not given in exchange for services is shown as a discount against revenue rather than as an expense. Aid in excess of the institution's actual tuition and fees, of $21,462,819 and $20,527,266 for fiscal years 2005-06 and 2004-05, respectively, is classified as Instruction expense.

10. CONTINGENT LIABILITIES

The university is a defendant in various legal actions, some of which are for substantial monetary amounts, that arise out of the normal course of its operations. Although the final outcome of the actions cannot be determined currently, the university's administration is of the opinion that eventual liability, if any, will not have a material effect on the university's financial position.

The university retains self insurance for property, general liability, and certain health benefits, and has an equity interest in a multi-provider captive insurance company.

TABLE 11. ANNUAL MINIMUM OPERATING LEASE PAYMENTS (*IN THOUSANDS*)

	Year	Payments
1	2007	$ 14,735
2	2008	14,002
3	2009	13,441
4	2010	12,464
5	2011	11,736
6	Thereafter	84,047
7	Total minimum operating lease payments	$ 150,425

TABLE 12. FUNCTIONAL EXPENSES (*IN THOUSANDS*)

		General Operations	Physical Capital	2006	2005
1	Instruction	$ 485,974	$ 26,026	$ 512,000	$ 477,963
2	Research	495,572	27,326	522,898	496,283
3	Public service	103,587	2,435	106,022	102,184
4	Academic support	189,900	31,144	221,044	194,130
5	Student services	98,011	9,347	107,358	101,273
6	Medical services	388,359	3,720	392,079	377,549
7	Institutional support	239,508	13,230	252,738	222,577
8	Enterprises and subsidiaries	159,562	21,395	180,957	184,289
9	Total expenses and deductions	$ 2,160,473	$ 134,623	$ 2,295,096	$ 2,156,248

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Produced by:
The Office of Publications and Marketing at Cornell University
and
The Division of Financial Affairs
Cornell University
341 Pine Tree Road
Ithaca, New York 14850-2820
dfa-comm@cornell.edu
http://www.dfa.cornell.edu
607/255-6240

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10/2006 150 FLP 060487