



**CORNELL UNIVERSITY**

OMB Circular A-133 Audit Reports

June 30, 2005

(With Independent Auditors' Report Thereon)

# CORNELL UNIVERSITY

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**KPMG LLP**  
265 Clinton Square  
Rochester, NY 14604

## **Independent Auditors' Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards**

The Board of Trustees  
Cornell University:

We have audited the accompanying statement of financial position of Cornell University as of June 30, 2005, 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 2004 financial statements and, in our report dated September 7, 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2005, on our consideration of Cornell University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic



financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

September 6, 2005  
Rochester, New York

**STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2005 (IN THOUSANDS)**

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2004)

	General Operations	Physical Capital	Financial Capital	2005 Total	2004 Total
<b>Assets</b>					
1 Cash and cash equivalents (note 2)	\$ 18,536	\$ 397	\$ 35,610	\$ 54,543	\$ 59,755
2 Collateral for securities loaned (note 2B)			197,090	197,090	235,681
3 Investments (note 2)	466,002	136,125	3,987,822	4,589,949	4,150,749
4 Accounts receivable, net (note 3)					
5 Government	52,521			52,521	54,772
6 Patient	55,705			55,705	57,276
7 Contributions	154,945	74,486	82,518	311,949	359,736
8 Other	93,404	6,438	10,385	110,227	135,261
9 Inventories and deferred charges	39,158	7,054		46,212	41,496
10 Student loans receivable (note 3C)	47,531		17,995	65,526	66,905
11 Land, buildings, and equipment, net (notes 5 & 6)		1,872,241		1,872,241	1,728,844
12 Funds held in trust by others (note 1D)			93,868	93,868	100,384
13 Total assets	<u>\$ 927,802</u>	<u>\$ 2,096,741</u>	<u>\$ 4,425,288</u>	<u>\$ 7,449,831</u>	<u>\$ 6,990,859</u>
<b>Liabilities</b>					
14 Accounts payable and accrued expenses	\$ 231,639	\$ 29,970		\$ 261,609	\$ 224,842
15 Securities loan agreements payable (note 2B)			\$ 197,090	197,090	235,681
16 Deposits and deferred revenues	62,316	1,262		63,578	63,874
17 Deferred benefits (note 7)	127,553		55,237	182,790	163,641
18 Funds held in trust for others (note 1E)			99,291	99,291	86,540
19 Living trust obligations (note 1C)			99,409	99,409	86,327
20 Bonds, mortgages, & notes payable (note 6)	22,808	607,970		630,778	605,955
21 Refundable government grants	44,820			44,820	43,577
22 Total liabilities	<u>489,136</u>	<u>639,202</u>	<u>451,027</u>	<u>1,579,365</u>	<u>1,510,437</u>
<b>Net Assets (note 1B)</b>					
23 Unrestricted					
24 Available for operations	154,321			154,321	336,713
25 Designated for student loans	3,683			3,683	3,734
26 Designated for plant		247,133		247,133	188,251
27 Net investment in plant		1,071,459		1,071,459	1,013,003
28 Appreciation on true endowments			1,213,267	1,213,267	1,044,965
29 Funds functioning as endowments			1,117,523	1,117,523	848,341
30 Temporarily restricted					
31 Available for operations	280,662			280,662	338,599
32 Designated for plant		138,947		138,947	171,844
33 Funds functioning as endowments			98,332	98,332	96,506
34 Funds subject to living trust agreements			48,351	48,351	47,962
35 Funds held in trust			42,917	42,917	39,556
36 Permanently restricted					
37 Student loan funds			32,084	32,084	30,639
38 True endowments			1,295,065	1,295,065	1,177,340
39 Funds subject to living trust agreements			34,216	34,216	35,449
40 Funds held in trust			92,506	92,506	107,520
41 Total net assets	<u>438,666</u>	<u>1,457,539</u>	<u>3,974,261</u>	<u>5,870,466</u>	<u>5,480,422</u>
42 Total liabilities and net assets	<u>\$ 927,802</u>	<u>\$ 2,096,741</u>	<u>\$ 4,425,288</u>	<u>\$ 7,449,831</u>	<u>\$ 6,990,859</u>

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

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

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2004)

	General Operations		Physical Capital	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>Revenues and other additions</b>				
1 Tuition and fees	\$ 559,426			
2 Scholarship allowance	(167,240)			
3 Net tuition and fees	392,186			
4 State appropriations	138,723		\$ 14,926	
5 Federal appropriations	16,300			
6 Federal grants and contracts	447,644			
7 State and local grants and contracts	29,102			
8 Private grants and contracts	32,397			
9 Contributions	77,711	\$ 48,491	8,745	\$ 32,235
10 Interest and dividends	46,771	1,204	1,725	108
11 Net realized gain/(loss) on investments	78,094			
12 Net unrealized gain/(loss) on investments	(401)		(13,100)	
13 Medical Physicians' Organization	362,997			
14 Enterprises and subsidiaries	152,771			
15 Educational departments	65,029		9	
16 Other sources	100,636	9,041	6,364	113
17 Total revenues	1,939,960	58,736	18,669	32,456
18 Investment payout	81,582	56,245	48	
19 Net assets released from restrictions	116,578	(116,578)	1,215	(1,215)
20 Capital investments/(withdrawals)	(303,435)	(56,340)	236,526	(64,138)
21 Total revenues and other additions	1,834,685	(57,937)	256,458	(32,897)
<b>Expenses (Note 8)</b>				
22 Salaries and wages	1,090,846			
23 Employee benefits	257,830			
24 Purchased services	115,910			
25 Supplies and general	425,781			
26 Utilities, rents, and taxes	102,623			
27 Interest expense	24,138			
28 Depreciation			137,159	
29 Other			1,961	
30 Total expenses	2,017,128		139,120	
31 Change in net assets	(182,443)	(57,937)	117,338	(32,897)
32 Total net assets, beginning of year	340,447	338,599	1,201,254	171,844
33 Total net assets, end of year	\$ 158,004	\$ 280,662	\$ 1,318,592	\$ 138,947

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

Financial Capital			2005	2004
Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
			\$ 559,426	\$ 532,645
			(167,240)	(158,187)
			392,186	374,458
			153,649	150,614
			16,300	17,048
			447,644	409,514
			29,102	24,373
			32,397	21,398
\$ 16,496	\$ 10,190	\$ 92,862	286,730	350,067
27,930	20,218	2,112	100,068	86,868
285,191	37,948	(12,670)	388,563	185,580
16,986	900	912	5,297	279,759
			362,997	341,289
			152,771	149,251
			65,038	60,700
446	(3,005)	(45)	113,550	59,025
347,049	66,251	83,171	2,546,292	2,509,944
(81,630)	(56,245)			
172,065	(4,430)	19,752		
437,484	5,576	102,923	2,546,292	2,509,944
			1,090,846	1,024,843
			257,830	237,238
			115,910	115,830
			425,781	388,420
			102,623	99,134
			24,138	21,247
			137,159	136,414
			1,961	9,334
			2,156,248	2,032,460
437,484	5,576	102,923	390,044	477,484
1,893,306	184,024	1,350,948	5,480,422	5,002,938
<u>\$ 2,330,790</u>	<u>\$ 189,600</u>	<u>\$ 1,453,871</u>	<u>\$ 5,870,466</u>	<u>\$ 5,480,422</u>

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

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2004)

	2005	2004
<b>Cash flows from operating activities</b>		
1 Increase in net assets	\$ 390,044	\$ 477,484
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Nonoperating items		
2 Contributions for physical and financial capital	(159,406)	(192,253)
3 Income restricted for financial capital	(2,181)	(815)
Noncash items		
4 Depreciation	137,159	136,414
5 Net realized (gains)/losses on investments	(388,563)	(185,580)
6 Net unrealized (gains)/losses on investments	(5,297)	(279,759)
7 Loss on equipment disposals	2,334	6,228
8 Provision for receivable allowances	15,387	26,267
9 Accretion of bond discount	858	939
10 Other noncash items	1,128	(2,810)
Change in assets and liabilities		
11 Accounts receivable	61,675	(61,893)
12 Inventories and deferred charges	(5,849)	163
13 Accounts payable and accrued expenses	36,767	34,583
14 Deposits and deferred revenues	(296)	5,134
15 Deferred benefits	19,149	8,756
16 Refundable government grants	1,243	100
17 Net cash provided/(used) by operating activities	<u>104,152</u>	<u>(27,042)</u>
<b>Cash flows from investing activities</b>		
18 Proceeds from the sale and maturities of investments	10,992,133	2,849,267
19 Purchase of investments	(11,037,473)	(2,911,711)
20 Acquisition of land, buildings, and equipment (net)	(274,665)	(273,621)
21 Student loans granted	(14,921)	(13,777)
22 Student loans repaid	15,886	15,317
23 Change in funds held in trust for others	12,751	24,433
24 Net cash used by investing activities	<u>(306,289)</u>	<u>(310,092)</u>
<b>Cash flows from financing activities</b>		
Resources for long-term purposes		
Contributions restricted to		
25 Investment in true endowment	90,718	76,925
26 Investment in physical capital	32,755	18,268
27 Investment subject to living trust agreements	7,161	8,674
28 Income restricted for financial capital	2,181	815
29 Contributions designated for funds functioning as endowments	20,547	74,012
Other financing activities		
30 Principal payments of bonds, mortgages, and notes payable	(81,973)	(26,851)
31 Proceeds from issuance of bonds, mortgages, and notes payable	105,938	137,119
32 Change in obligations under living trust agreements	19,598	8,069
33 Net cash provided by financing activities	<u>196,925</u>	<u>297,031</u>
34 Net change in cash and cash equivalents	(5,212)	(40,103)
35 Cash and cash equivalents, beginning of year	59,755	99,858
36 Cash and cash equivalents, end of year	<u>\$ 54,543</u>	<u>\$ 59,755</u>

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 Organiza-

tions. 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 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 use and purpose 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.

Temporarily restricted net assets are reported as reclassifications from temporarily restricted to unrestricted in the fiscal year when the donor purpose has been fulfilled or when the stipulated time period has elapsed. Contributions that are released from restriction within the current fiscal year are classified as increases in unrestricted net assets in the year the contribution is received.

Table 1 shows a summary of the balances and changes in net assets by restriction class for the years ended June 30, 2005 and June 30, 2004.

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, 2005, the university's true endowment net assets at fair value consisted of approximately 21 percent for unrestricted purposes, 26 percent for student aid, 41 percent for instruction, and 12 percent for other donor-specified purposes. On June 30, 2004, the breakdown was 24 percent for unrestricted purposes, 23 percent for student aid, 40 percent for instruction, and 13 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 2004-05 and 2003-04 were 6 percent and 5.75 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
<sup>1</sup> Net assets at June 30, 2003	\$ 3,046,992	\$ 705,170	\$ 1,250,776	\$ 5,002,938
2004 change in net assets:				
<sup>2</sup> General operations	15,651	(10,697)		4,954
<sup>3</sup> Physical capital	89,284	(15,110)		74,174
<sup>4</sup> Financial capital	283,080	15,104	100,172	398,356
<sup>5</sup> Total change in net assets	388,015	(10,703)	100,172	477,484
<sup>6</sup> Net assets at June 30, 2004	3,435,007	694,467	1,350,948	5,480,422
2005 change in net assets:				
<sup>7</sup> General operations	(182,443)	(57,937)		(240,380)
<sup>8</sup> Physical capital	117,338	(32,897)		84,441
<sup>9</sup> Financial capital	437,484	5,576	102,923	545,983
<sup>10</sup> Total change in net assets	372,379	(85,258)	102,923	390,044
<sup>11</sup> Net assets at June 30, 2005	\$ 3,807,386	\$ 609,209	\$ 1,453,871	\$ 5,870,466

**TABLE 2. COMPOSITION OF FINANCIAL CAPITAL NET ASSETS AT JUNE 30, 2005 (IN THOUSANDS)**  
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2004)

	Net Asset Classification			2005	2004
	Unrestricted	Temporarily Restricted	Permanently Restricted		
1 True endowment and unspent earnings, including contributions receivable of \$82,518	\$ 1,213,267		\$ 1,295,065	\$ 2,508,332	\$ 2,222,305
2 Functioning as endowment	1,117,523	\$ 98,332		1,215,855	944,847
3 Funds held in trust		42,917	92,506	135,423	147,076
4 Total university endowment	2,330,790	141,249	1,387,571	3,859,610	3,314,228
5 Living trust funds		48,351	34,216	82,567	83,411
6 Loan funds			32,084	32,084	30,639
7 Total	<u>\$ 2,330,790</u>	<u>\$ 189,600</u>	<u>\$ 1,453,871</u>	<u>\$ 3,974,261</u>	<u>\$ 3,428,278</u>

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 2004-05 and 2003-04 were \$2,335,839 and \$2,332,678, 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 \$87,337,236 and \$79,987,568 at June 30, 2005 and June 30, 2004, 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 \$41,553,749 and \$46,691,861 at June 30, 2005 and June 30, 2004, 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 uncollectible accounts, are reflected as university expenses. Net assets resulting from the activities of the Medical Physicians' Organization are set aside 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 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 accounting principles generally accepted in the United States of America 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 fiscal year ended June 30, 2004, from which the summarized information was derived.

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

	2005	2004
1 Cash and cash equivalent holdings	\$ 222,722	\$ 267,277
Equity securities		
2 Domestic	818,632	1,149,743
3 International	810,403	575,734
Debt securities		
4 Domestic - government	302,701	338,149
5 Domestic - corporate debt securities	240,359	197,252
6 International - governments	80,857	66,700
7 International - corporate	25,315	26,482
8 Mortgages and other asset-backed securities	49,944	30,751
Other investments		
9 Limited partnerships	2,014,184	1,458,963
10 Real estate	5,651	6,189
11 Other	19,181	33,509
12 Total investments	<u>\$ 4,589,949</u>	<u>\$ 4,150,749</u>

### K. Reclassifications

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

### L. 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 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. 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 2004-05 and 2003-04 for investing the university's portfolios amounted to approximately \$9,700,000 and \$7,000,000, respectively. The composition of investments at June 30, 2005 and June 30, 2004 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 \$190,498,069 and \$228,609,221 at June 30, 2005 and June 30, 2004, 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 \$197,090,138 and \$235,681,598 and an offsetting liability for the return of the collateral in Financial Capital on the *Statement of Financial Position* at June 30, 2005 and June 30, 2004, respectively. The collateral is invested in short-term securities, and income earned is credited as additional income to the investment pools.

### 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

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

	2005	2004
1 Working capital	\$ 13,564	\$ 8,159
2 Intermediate-term (resources for spending in less than 3 years)	510,113	646,936
3 Long-term investment pool (resources held for 3 years or longer)	3,623,192	3,070,235
4 Separately invested securities	352,580	333,282
5 Life income fund pools	17,361	20,633
6 DASNY holdings	68,936	66,934
7 Other purposes of investment	4,202	4,570
8 Total investments	<u>\$ 4,589,949</u>	<u>\$ 4,150,749</u>

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, 2005 and June 30, 2004, the market prices per unit were \$50.11 and \$46.51, respectively. The total return on the university's long-term investments, of which the LTIP is a component, was 13.6 percent for fiscal year 2004-05.

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, 2005, distributions for investment payout were \$153,462,970 (\$2.25 per unit), of

which \$137,875,230 supported general operations and physical capital. The remaining distribution of \$15,587,740 was returned to principal or went to funds held in trust for others shown in the accompanying *Statement of Financial Position*. The distribution for 2005 was comprised of \$49,588,912 in net investment income and \$103,874,058 paid from accumulated gains. For the fiscal year ended June 30, 2004, the investment payout was \$157,090,152 (\$2.43 per unit). The distribution for 2004 was comprised of \$42,749,256 in net investment income and \$114,340,896 paid from accumulated gains.

At June 30, 2005, 444 of 4,994 true endowment funds invested in the LTIP had market values below book values by \$5,472,810 on a total book value of \$105,299,344 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.

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.

**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
<b>Long-Term Investment Pool</b>					
1 End of year	\$ 3,623,192	\$ 3,153,016	\$ 470,176	\$ 50.11	72,302,273
2 Beginning of year	\$ 3,070,235	\$ 2,612,901	<u>\$ 457,334</u>	\$ 46.51	66,016,562
3 Unrealized net gain for year			<u>\$ 12,842</u>		
4 Realized net gain/(loss) for year			<u>\$ 342,503</u>		
5 Net gain/(loss) for year			<u>\$ 355,345</u>		

#### 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, 2005 and June 30, 2004, the university had commitments of approximately \$718,861,000 and \$567,006,000, 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, 2005 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. The notional amount of the exposures at June 30, 2005 was approximately \$471,757,000, with the largest portion, \$526,962,000, going to the creation

of synthetic exposures in fixed income substitutes and commodities. The notional amount of the exposures as of June 30, 2004 was approximately \$554,756,000. As a result of this activity, the university has recorded unrealized losses of \$10,403,000 and \$696,300 for fiscal years 2004-05 and 2003-04, respectively.

### 3. ACCOUNTS AND LOANS RECEIVABLE

#### A. Patient Accounts and Other

Patient accounts receivable at June 30, 2005 and June 30, 2004, are net of provisions for allowances and doubtful accounts of \$85,056,142 and \$78,059,422, respectively. Other accounts receivable, including student accounts, at June 30, 2005 and June 30, 2004 are net of allowances for doubtful accounts of \$1,972,006 and \$1,975,833, 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 \$311,949,000 and \$359,736,000 representing the present value of future cash flows are recorded as receivables at June 30, 2005 and June 30, 2004, 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, 2005 and 2004, conditional promises and donor intentions not reflected in the financial statements were approximately \$111,366,000 and \$98,815,000, respectively. Expenses related to fundraising activities amounted to approximately \$31,023,000 and \$25,570,000 for fiscal years 2004-05 and 2003-04, respectively.

TABLE 5. CONTRIBUTIONS RECEIVABLE (IN THOUSANDS)

	2005	2004
Contributions expected to be realized		
1 In one year or less	\$ 132,918	\$ 98,062
2 Between one year and five years	191,376	291,774
3 More than five years	73,962	72,793
4 Gross contributions receivable	<u>398,256</u>	<u>462,629</u>
5 Discount (5.75% - 7.00%)	(69,889)	(83,960)
6 Allowance	(16,418)	(18,933)
7 Total discount and allowance	<u>(86,307)</u>	<u>(102,893)</u>
8 Net contributions receivable	<u>\$ 311,949</u>	<u>\$ 359,736</u>

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

	Book value at June 30, 2004	Additions	Disposals and Closed Projects	Book value at June 30, 2005
1 Land, buildings, and improvements	\$ 1,952,782	\$ 136,346	\$ 2,116	\$ 2,087,012
2 Furniture, equipment, books, and collections	760,121	70,917	32,892	798,146
3 Construction in progress	197,771	214,735	139,108	273,398
4 Total before accumulated depreciation	2,910,674	<u>\$ 421,998</u>	<u>\$ 174,116</u>	3,158,556
5 Accumulated depreciation	(1,181,830)			(1,286,315)
6 Land, buildings and equipment, net	<u>\$ 1,728,844</u>			<u>\$ 1,872,241</u>

### C. Student Loans

Student loans receivable at June 30, 2005 and June 30, 2004, are reported net of allowances for doubtful loans of \$9,664,758 and \$9,553,578, 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 \$40,396,178, and \$32,670,096 at June 30, 2005 and June 30, 2004, 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 \$10,499,970 and \$10,494,723 at June 30, 2005 and June 30, 2004, respectively. In addition, \$25,250,195 and \$30,999,585 of bond proceeds were on deposit for future project expenditures at June 30, 2005 and 2004, respectively. Escrow held by the Workers' Compensation Board of New York includes investment securities comprised of United States government obligations of \$104,107 and \$124,950 at June 30, 2005 and June 30, 2004, respectively.

Assets in general operations for student loans include

\$3,289,665 and \$3,264,783 at June 30, 2005 and June 30, 2004, 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 \$8,225,000 and \$14,374,000 for fiscal years 2004-05 and 2003-04, 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 \$318,233,000 and \$317,198,000 at June 30, 2005 and June 30, 2004, 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 \$24,205,000 and \$24,299,000 at June 30, 2005 and June 30, 2004, respectively.

## **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, 2005 and June 30, 2004, 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 2004-05 and 2003-04 was approximately \$23,281,000 and \$20,308,000, 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 \$628,418,000 and \$614,952,000 at June 30, 2005 and June 30, 2004, 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, 2005, 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 \$81,535,000 (expiring October 1, 2007); 4.52 percent on a notional amount of \$42,845,000 (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, 2005, 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 \$79,600,000 (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 for \$100,000,000. 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 has established a program to issue \$100,000,000 of taxable commercial paper to finance working capital, capital projects, and equipment purchases for the Ithaca and Medical College campuses. As part of this program's activity in fiscal year 2004-05, the university refinanced the DASNY 1993 Pooled Loan Program, originally scheduled to mature in 2012.

The university maintains a working capital line-of-credit of \$50 million for short-term cash flow needs. As of June 30, 2005, \$10 million was borrowed against the line-of-credit.

## **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.

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.

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.



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

	Balance June 30, 2005	Balance June 30, 2004	Interest Rates	Maturity Date
<b>Physical Capital</b>				
1	Dormitory Authority of the State of New York (DASNY)			
2	Revenue Bond Series			
3	\$ 58,300	\$ 58,700	0.88 to 3.05*	2025
4		660	5.10	2005
5	73,475	82,550	5.00 to 5.40	2014
6	61,535	63,055	2.99	2029
7	80,385	82,085	4.63	2030
8	92,100	92,100	3.51	2033
9	13,010	14,135	11.11	2012
10		1,554	1.20 to 1.90*	2012
11	89,580	21,480	1.11 to 2.99*	2028
12	50,567	42,589	1.20 to 3.32*	-
13	Industrial Development Agency			
14	6,200	7,070	4.85 to 5.25	2011
15	42,845	42,905	4.52	2030
16	15,390	15,390	4.33	2015
17	5,915	6,180	5.75 to 6.50	2019
18	3,000	3,125	zero	2029
19	Capitalized leases			
20	12,334	12,791	various	2020
21		40,140	5.80	2005
22	3,334	3,428	various	2006-2028
23	<u>607,970</u>	<u>589,937</u>		
<b>General Operations</b>				
24	1,897	2,963	6.75 to 6.80	2009
25	1,799	2,463	5.35 to 5.50	2007
26		1,995	5.45 to 5.60	2005
27	9,112	8,597	5.70 to 6.15	2011
28	10,000		3.00 to 3.25*	2006
29	<u>22,808</u>	<u>16,018</u>		
30	<u>\$ 630,778</u>	<u>\$ 605,955</u>		

\* Rates presented are the actual rates paid during fiscal year 2004-05. These rates are variable based on market conditions.

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

Year	Principal			Interest	Total
	Physical Capital	General Operations	Total		
1 2006	\$ 15,973	\$ 12,823	\$ 28,796	\$ 28,308	\$ 57,104
2 2007	18,203	2,800	21,003	27,250	48,253
3 2008	18,598	1,696	20,294	26,139	46,433
4 2009	19,168	2,674	21,842	24,919	46,761
5 2010	19,694	1,110	20,804	23,738	44,542
6 Thereafter	516,334	1,705	518,039	279,451	797,490
7 Total	<u>\$ 607,970</u>	<u>\$ 22,808</u>	<u>\$ 630,778</u>	<u>\$ 409,805</u>	<u>\$ 1,040,583</u>

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, 2005 and June 30, 2004 amounted to \$64,408,215 and \$56,217,192, respectively.

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

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

	2005			2004
	Endowed Ithaca*	Medical College	Combined	Combined
1 Accumulated benefit obligation at end of year	\$ 21,004	\$ 37,201	\$ 58,205	\$ 51,398
<b>Change in benefit obligation</b>				
2 Projected benefit obligation at beginning of year	\$ 19,908	\$ 41,406	\$ 61,314	\$ 57,604
3 Service cost (benefits earned during the period)		2,655	2,655	2,477
4 Interest cost on projected benefit obligation	1,152	2,513	3,665	3,439
5 Actuarial (gain)/loss	1,918	5,490	7,408	2,015
6 Benefits paid	(1,974)	(2,207)	(4,181)	(4,221)
7 Projected benefit obligation at end of year	21,004	49,857	70,861	61,314
<b>Change in plan assets</b>				
8 Fair value of plan assets at beginning of year	29,068	32,436	61,504	57,762
9 Actual return on plan assets	2,319	2,857	5,176	7,963
10 Employer contributions		900	900	
11 Benefits paid	(1,974)	(2,207)	(4,181)	(4,221)
12 Fair value of plan assets at end of year	29,413	33,986	63,399	61,504
13 Funded status	8,409	(15,871)	(7,462)	190
14 Unrecognized prior service cost				
15 Unrecognized net actuarial loss/(gain) from past experience different than assumed	8,092	10,999	19,091	12,955
16 Net amount recognized - prepaid/(accrued) benefit cost	\$ 16,501	\$ (4,872)	\$ 11,629	\$ 13,145
<b>Components of net periodic benefit cost</b>				
17 Service cost (benefits earned during the period)		\$ 2,655	\$ 2,655	\$ 2,477
18 Interest cost	\$ 1,153	2,513	3,666	3,439
19 Expected return on plan assets	(2,250)	(2,340)	(4,590)	(4,303)
20 Amortization of prior service cost				7
21 Amortization of net (gain)/loss	417	268	685	1,205
22 Net periodic benefit cost/(income)	\$ (680)	\$ 3,096	\$ 2,416	\$ 2,825

\*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 2006		\$ 900	\$ 900

Estimated future benefit payments from the trust (in thousands)

	Endowed Ithaca	Medical College	Combined
2 2006	\$ 1,871	\$ 2,254	\$ 4,125
3 2007	1,813	2,372	4,185
4 2008	1,778	2,369	4,147
5 2009	1,750	2,546	4,296
6 2010	1,705	2,868	4,573
7 2011-2015	7,784	17,854	25,638

	2005		2004	
	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	6.00%	6.00%	5.75%	5.75%
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	5.00%	5.00%	6.00%	6.00%
12 Rate of compensation increase	4.00%	6.10%	4.00%	6.10%

Combined plan assets

Asset category	Target Allocation	Percentage of Plan Assets at June 30		Expected Return on Plan Assets	
		2005	2004	2005	2004
13 Equity securities	39-85%	63.7%	62.1%	9.25%	9.25%
14 Debt securities	15-55%	31.1%	33.1%	6.00%	6.00%
15 Real estate	1-5%	5.2%	4.8%	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.

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, 2005 and June 30, 2004, was \$15,749,507 and \$12,806,510, 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 post-retirement 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.

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.

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

	2005			2004
	Endowed Ithaca	Medical College	Combined	Combined
<b>Change in benefit obligation</b>				
1 Benefit obligation at beginning of year	\$ 218,995	\$ 54,861	\$ 273,856	\$ 294,587
2 Service cost (benefits earned during the period)	7,942	2,700	10,642	12,091
3 Interest cost	12,832	2,402	15,234	15,616
4 Plan amendments				1,153
5 Actuarial (gain)/loss	53,296	(6,574)	46,722	(41,663)
6 Benefits paid (outside of trust)	(7,377)	(1,918)	(9,295)	(7,928)
7 Benefit obligation at end of year	<u>285,688</u>	<u>51,471</u>	<u>337,159</u>	<u>273,856</u>
<b>Change in plan assets</b>				
8 Fair value of plan assets at beginning of year	53,413	20,375	73,788	57,737
9 Actual return on plan assets	5,520	2,060	7,580	9,864
10 Employer contribution	4,642		4,642	6,187
11 Fair value of plan assets at end of year	<u>63,575</u>	<u>22,435</u>	<u>86,010</u>	<u>73,788</u>
12 Funded status	(222,113)	(29,036)	(251,149)	(200,068)
13 Unrecognized net transition obligation	21,343	7,811	29,154	32,798
14 Unrecognized prior service cost		1,215	1,215	1,528
15 Unrecognized net actuarial loss from past experience different than assumed	123,559	8,469	132,028	89,715
16 Prepaid/(accrued) postretirement benefit cost	<u>\$ (77,211)</u>	<u>\$ (11,541)</u>	<u>\$ (88,752)</u>	<u>\$ (76,027)</u>
<b>Components of net periodic postretirement benefit cost</b>				
17 Service cost (benefits earned during the period)	\$ 7,942	\$ 2,700	\$ 10,642	\$ 12,091
18 Interest cost	12,832	2,402	15,234	15,616
19 Expected return on plan assets	(4,383)	(1,629)	(6,012)	(4,795)
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	2,842		2,842	5,573
23 Net periodic postretirement benefit cost/(income)	<u>\$ 21,901</u>	<u>\$ 4,762</u>	<u>\$ 26,663</u>	<u>\$ 32,442</u>
<b>Expected future employer contributions to trust</b>				
24 2006	\$ 4,863		\$ 4,863	
<b>Estimated future benefit payments (employer paid)</b>				
25 2006	\$ 7,858	\$ 2,045	\$ 9,903	
26 2007	8,157	2,086	10,243	
27 2008	8,811	2,185	10,996	
28 2009	9,385	2,271	11,656	
29 2010	9,996	2,432	12,428	
30 2011-2015	61,142	16,184	77,326	
<b>Estimated future government subsidy amounts</b>				
31 2006	\$ 406	\$ 155	\$ 561	
32 2007	894	340	1,234	
33 2008	984	376	1,360	
34 2009	1,083	412	1,495	
35 2010	1,177	443	1,620	
36 2011-2015	7,695	2,869	10,564	

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

	2005		2004		
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College	
Weighted-average assumptions used to determine net periodic postretirement benefit cost as of July 1					
<sup>1</sup> Discount rate	6.00%	6.00%	5.75%	5.75%	
<sup>2</sup> 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					
<sup>3</sup> Discount rate	5.00%	5.00%	6.00%	6.00%	
Assumed health care cost trend rates at end of year					
<sup>4</sup> Health care cost trend rate assumed for next year	10.00%	10.00%	9.00%	9.00%	
<sup>5</sup> Ultimate trend rate	5.00%	5.00%	5.00%	5.00%	
<sup>6</sup> Years to reach ultimate trend rate	5	5	4	4	
	2005		2004		
	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					
<sup>7</sup> Effect on total service cost and interest cost	\$ 4,633	\$ 924	\$ 4,823	\$ 1,313	
<sup>8</sup> Effect on accumulated postretirement benefit obligation as of June 30	\$ 49,687	\$ 6,789	\$ 39,178	\$ 7,620	
1-Percentage point decrease					
<sup>9</sup> Effect on total of service and interest cost	\$ (3,757)	\$ (778)	\$ (3,714)	\$ (1,087)	
<sup>10</sup> Effect on accumulated postretirement benefit obligation as of June 30	\$ (42,326)	\$ (5,998)	\$ (31,241)	\$ (6,615)	
Combined plan assets					
Asset category	Target Allocation	Percentage of Plan Assets at June 30		Expected Return on Plan Assets	
	2006	2005	2004	2005	2004
<sup>11</sup> Equity securities	39-85%	75.7%	72.4%	9.25%	9.25%
<sup>12</sup> Debt securities	15-55%	24.3%	27.6%	6.00%	6.00%
<sup>13</sup> Real estate	0-5%	0.0%	0.0%	7.50%	7.50%
<sup>14</sup> Total		100.0%	100.0%		

Tables 10A and 10B set forth the funded status and asset allocations of the plans as of June 30, 2005 and June 30, 2004, the components of net periodic postretirement benefit costs, and the assumptions used in accounting for the plans during 2005 and 2004. The accrued postretirement benefit cost shown in Table 10A is \$12,725,000 of current-year unfunded cost plus \$76,027,000 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." In addition, this act established a federal subsidy to sponsors of retiree health care benefit plans that provide a drug benefit that is at least actuarially equivalent to Medicare Part D. As a sponsor, Cornell University expects to collect this subsidy beginning in 2006. This subsidy should reduce the accumulated postretirement benefit obligation (APBO) as of July 1, 2004 by \$30.2 million for the Endowed

Ithaca plan and by \$8.3 million for the Medical College plan. Also, the impact of the Medicare Modernization Act on the fiscal year 2004-05 net periodic postretirement benefit cost was a reduction of \$4.8 million for the Endowed Ithaca plan and a reduction of \$1.4 million for the Medical College plan.

### 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. FUNCTIONAL EXPENSES AND STUDENT AID

Table 11 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 \$135,882,000 for fiscal year 2004-05, and \$136,909,000 for fiscal year 2003-04.

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 \$20,527,266 and \$22,432,772 for fiscal years 2004-05 and 2003-04, respectively, is classified as Instruction expense.

## 9. SUBSEQUENT EVENTS AND 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 multiprovider captive insurance company.

TABLE 11. FUNCTIONAL EXPENSES (IN THOUSANDS)

	General Operations	Physical Capital	2005	2004
1 Instruction	\$ 450,444	\$ 27,519	\$ 477,963	\$ 451,234
2 Research	465,573	30,710	496,283	467,817
3 Public service	98,832	3,352	102,184	103,651
4 Academic support	162,190	31,940	194,130	183,638
5 Student services	92,497	8,776	101,273	96,381
6 Medical services	373,889	3,660	377,549	353,993
7 Institutional support	209,181	13,396	222,577	192,603
8 Enterprises and subsidiaries	164,522	19,767	184,289	183,143
9 Total expenses and deductions	<u>\$ 2,017,128</u>	<u>\$ 139,120</u>	<u>\$ 2,156,248</u>	<u>\$ 2,032,460</u>

**CORNELL UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
Research and Development:				
Department of Agriculture:				
Department of Agriculture	10.000	\$ 333,602	201,204	534,806
Agricultural Research – Basic and Applied Research	10.001	4,696,539	97,953	4,794,492
Plant and Animal Disease, Pest Control, and Animal Care	10.025	42,392	91,632	134,024
Commodity Loans and Loan Deficiency Payments	10.051	—	1,882	1,882
Inspection Grading and Standardization	10.162	90,131	—	90,131
Grants for Agricultural Research, Special Research Grants	10.200	6,359,187	732,762	7,091,949
Cooperative Forestry Research	10.202	144,647	—	144,647
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	4,700,774	—	4,700,774
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	—	20,000	20,000
Grants for Agricultural Research – Competitive Research Grants	10.206	4,851,092	118,185	4,969,277
Animal Health and Disease Research	10.207	179,487	—	179,487
Sustainable Agriculture Research and Education	10.215	—	71,856	71,856
Higher Education Challenge Grants	10.217	—	3,734	3,734
Biotechnology Risk Assessment Research	10.219	3,756	—	3,756
Higher Education Multicultural Scholars Program	10.220	5,330	—	5,330
Fund for Rural America Research, Education, and Extension Activities	10.224	353,469	33,618	387,087
Agricultural and Rural Economic Research	10.250	72,685	23,286	95,971
Initiative for Future Agriculture and Food Systems Integrated Programs	10.302	757,218	465,760	1,222,978
	10.303	1,597,621	340,525	1,938,146
Homeland Security Agricultural	10.304	300,427	—	300,427
Organic Agriculture Research and Extension Initiative	10.307	53,137	—	53,137
Emergency Food Assistance Program (Food Commodities)	10.569	—	6,518	6,518
Forestry Research	10.652	10,580	—	10,580
Cooperative Forestry Assistance	10.664	107,648	59,035	166,683
1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856	54,945	—	54,945
Soil Survey	10.903	1,100	—	1,100
Technical Agricultural Assistance	10.960	71,875	—	71,875
Scientific Cooperation and Research	10.961	112,900	—	112,900
Department of Agriculture Total		<u>24,900,542</u>	<u>2,267,950</u>	<u>27,168,492</u>
Department of Commerce:				
Department of Commerce	11.000	263,993	42,287	306,280
Census Geography	11.003	184,937	—	184,937
ITA Special Projects	11.113	—	854,343	854,343
Grants for Public Works and Economic Development Facilities	11.300	583,102	—	583,102
Sea Grant Support	11.417	—	371,808	371,808
Coastal Zone Management Administration Awards	11.419	—	42,681	42,681
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	8,203	—	8,203
Climate and Atmospheric Research	11.431	186,637	56,493	243,130
Marine Fisheries Initiative	11.433	50,330	—	50,330
Special Oceanic and Atmospheric Projects	11.460	—	48,141	48,141
Applied Meteorological Research	11.468	444,462	—	444,462
Unallied Science Program	11.472	418,602	—	418,602
Coastal Services Center	11.473	—	124,827	124,827
Center for Sponsored Coastal Ocean Research Coastal Ocean Program	11.478	115,576	—	115,576
Measurement and Engineering Research and Standards	11.609	150	—	150
Department of Commerce Total		<u>2,255,992</u>	<u>1,540,580</u>	<u>3,796,572</u>

**CORNELL UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
Department of Defense:				
Department of Defense	12.000	\$ 1,812,861	1,679,647	3,492,508
Aquatic Plant Control	12.100	—	1,204	1,204
Collaborative Research and Development	12.114	—	2,444	2,444
Basic and Applied Scientific Research	12.300	4,883,385	1,041,082	5,924,467
Military Medical Research and Development	12.420	621,485	—	621,485
Basic Scientific Research	12.431	1,783,873	148,192	1,932,065
Basic, Applied, and Advanced Research in Science and Engineering	12.630	1,513,175	344,247	1,857,422
Air Force Defense Research Sciences Program	12.800	3,218,340	244,876	3,463,216
Mathematical Sciences Grants Program	12.901	75,985	—	75,985
Research and Technology Development	12.910	2,193,939	1,314,157	3,508,096
Department of Defense Total		16,103,043	4,775,849	20,878,892
Department of Housing and Urban Development:				
Department of Housing and Urban Development	14.000	11,155	—	11,155
Early Doctoral Student Research Grants	14.517	7,110	—	7,110
Department of Housing and Urban Development Total		18,265	—	18,265
Department of the Interior:				
Department of Interior	15.000	90,857	334,083	424,940
Recreation Resource Management	15.225	5,000	—	5,000
Fish and Wildlife Management Assistance	15.608	34,499	—	34,499
Cooperative Endangered Species Conservation Fund	15.615	—	39,920	39,920
Wildlife Conservation and Appreciation	15.617	8,500	22,280	30,780
Assistance to State Water Resources Research Institutes	15.805	153,017	—	153,017
U.S. Geological Survey – Research and Data Collection	15.808	408,093	—	408,093
Gap Analysis Program	15.811	34,289	—	34,289
Cooperative Research Units Program	15.812	17,492	—	17,492
Rivers, Trails, and Conservation Assistance	15.921	113,213	—	113,213
Department of the Interior Total		864,960	396,283	1,261,243
Department of Justice:				
Criminal Justice Research and Development – Department of Justice	16.000	42,308	—	42,308
Graduate Research Fellowships	16.562	18	—	18
Department of Justice Total		42,326	—	42,326
Department of Labor:				
Department of Labor	17.000	—	(6,033)	(6,033)
Department of Labor Total		—	(6,033)	(6,033)
Department of State:				
Department of State	19.000	—	1,366,924	1,366,924
Department of State Total		—	1,366,924	1,366,924
Department of Transportation:				
Department of Transportation	20.000	67,907	—	67,907
Highway Planning and Construction	20.205	—	2,558,826	2,558,826
University Transportation Centers Program	20.701	—	144,098	144,098
Department of Transportation Total		67,907	2,702,924	2,770,831



**CORNELL UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
General Services Administration:				
General Services Administration	39.000	\$ —	69,673	69,673
General Services Administration Total		—	69,673	69,673
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration	43.000	1,313,287	934,378	2,247,665
Aerospace Education Services Program	43.001	3,654,958	10,702,195	14,357,153
Technology Transfer	43.002	—	46,113	46,113
National Aeronautics and Space Administration Total		4,968,245	11,682,686	16,650,931
National Science Foundation:				
Engineering Grants	47.041	26,597,589	369,598	26,967,187
Mathematical and Physical Sciences	47.049	55,894,072	535,389	56,429,461
Geosciences	47.050	4,707,311	45,871	4,753,182
Computer and Information Science and Engineering	47.070	9,192,411	286,514	9,478,925
Biological Sciences	47.074	14,473,624	3,471,259	17,944,883
Social, Behavioral, and Economic Sciences	47.075	2,905,963	72,548	2,978,511
Education and Human Resources	47.076	4,771,517	17,370	4,788,887
Polar Programs	47.078	186,242	—	186,242
National Science Foundation Total		118,728,729	4,798,549	123,527,278
National Leadership Grants:				
National Leadership Grants	45.312	89,567	—	89,567
National Leadership Grants Total		89,567	—	89,567
Environmental Protection Agency:				
Environmental Protection Agency	66.000	—	133,465	133,465
Construction Grants for Wastewater Treatment Works	66.400	—	16,367	16,367
National Estuary Program	66.456	35,456	—	35,456
Nonpoint Source Implementation Grants	66.460	94,858	45,142	140,000
Water Quality Cooperative Agreements	66.463	40,532	—	40,532
Great Lakes Program	66.469	—	24,000	24,000
Environmental Protection Consolidated Research	66.500	(50,649)	32,802	(17,847)
Science To Achieve Results (STAR) Program	66.509	324,322	27,828	352,150
Office of Research and Development Consolidated Research	66.511	44,755	84,145	128,900
Science To Achieve Results (STAR) Fellowship Program	66.514	142	—	142
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	131,825	13,563	145,388
Pollution Prevention Grants Program	66.708	—	13,760	13,760
Environmental Protection Agency Total		621,241	391,072	1,012,313
Department of Energy:				
Department of Energy	81.000	859,540	821,941	1,681,481
Office of Science Financial Assistance Program	81.049	3,564,957	596,837	4,161,794
Conservation Research and Development	81.086	113,416	—	113,416
Renewable Energy Research and Development	81.087	—	58,891	58,891
University Reactor Infrastructure and Education Support	81.114	1,499,492	—	1,499,492
Department of Energy Total		6,037,405	1,477,669	7,515,074
United States Information Agency:				
United States Information Agency:	82.000	—	137,206	137,206
United States Information Agency Total		—	137,206	137,206

**CORNELL UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
Department of Education:				
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015	\$ 394,281	3,780	398,061
International Research and Studies	84.017	162,124	67,025	229,149
Overseas – Faculty Research Abroad	84.019	66,693	—	66,693
Overseas Doctoral Dissertation	84.022	28,338	—	28,338
Fund for the Improvement of Postsecondary Education	84.116	—	13,698	13,698
National Institute on Disability and Rehabilitation Research	84.133	1,331,723	—	1,331,723
Education Research, Development, and Dissemination	84.305	15,086	—	15,086
Special Education Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	—	12,136	12,136
International Education Technological Innovation and Cooperation for Foreign Information Access	84.337	—	26,796	26,796
National Assessment of Educational Progress (NAEP)	84.902	44,214	—	44,214
Department of Education Total		2,042,459	123,435	2,165,894
United States Institute of Peace:				
Unsolicited Grant Program	91.001	—	26	26
Solicited Grant Program	91.002	17,173	—	17,173
United States Institute of Peace Total		17,173	26	17,199
Department of Health and Human Services:				
Department of Health and Human Services	93.000	5,388,530	14,998,406	20,386,936
Innovations in Applied Public Health Research	93.061	440,464	—	440,464
Food and Drug Administration – Research	93.103	293,264	2,839	296,103
Maternal and Child Health Federal Consolidated Programs	93.110	123,439	—	123,439
Biological Response to Environmental Health Hazards	93.113	359,826	49,912	409,738
Applied Toxicological Research and Testing	93.114	406,221	—	406,221
Biometry and Risk Estimation – Health Risks from Environmental Exposures	93.115	—	45,260	45,260
Oral Diseases and Disorders Research	93.121	966,589	181,774	1,148,363
AIDS Education and Training Centers	93.145	—	225,639	225,639
Human Genome Research	93.172	92,741	166,868	259,609
Research Related to Deafness and Communication Disorders	93.173	1,522,238	—	1,522,238
Research and Training in Complementary and Alternative Medicine	93.213	348,216	—	348,216
Research on Healthcare Costs, Quality, and Outcomes	93.226	843,580	—	843,580
Mental Health Research Grants	93.242	9,014,601	80,747	9,095,348
Alcohol Research Programs	93.273	855,203	—	855,203
Drug Abuse Scientist Development Awards, Research Scientist Development Awards, and Research Scientist Awards	93.277	439,427	—	439,427
Drug Abuse National Research Service Award for Research Training	93.278	385,650	—	385,650
Drug Abuse Research Programs	93.279	8,027,338	138,578	8,165,916
Mental Health Research Career/Scientist Development Awards	93.281	1,829,347	246,454	2,075,801
Mental Health National Research Service Awards for Research Training	93.282	526,317	—	526,317
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	236,355	169,914	406,269
Discovery and Applied Research	93.286	1,319,370	—	1,319,370
Comparative Medicine Program	93.306	315,296	—	315,296

**CORNELL UNIVERSITY**

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<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
General Clinical Research Centers	93.333	\$ 6,308,939	—	6,308,939
Biomedical Research Technology	93.371	677,206	331,073	1,008,279
National Center for Research Resources	93.389	7,659,394	—	7,659,394
Cancer Cause and Prevention Research	93.393	4,052,127	102,318	4,154,445
Cancer Detection and Diagnosis Research	93.394	4,656,880	—	4,656,880
Cancer Treatment Research	93.395	2,223,327	188,915	2,412,242
Cancer Biology Research	93.396	3,455,505	—	3,455,505
Cancer Centers Support Grants	93.397	—	95,151	95,151
Cancer Research Manpower	93.398	1,176,617	11,590	1,188,207
Cancer Control	93.399	921,692	46,814	968,506
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	226,364	—	226,364
Social Services Research and Demonstration	93.647	37,685	—	37,685
Adoption Opportunities	93.652	—	4,183	4,183
Child Abuse and Neglect Discretionary Activities	93.670	513,866	—	513,866
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	—	48,504	48,504
Cell Biology and Biophysics Research	93.821	4,568,520	261,543	4,830,063
Heart and Vascular Diseases Research	93.837	18,891,216	16,321	18,907,537
Lung Diseases Research	93.838	5,865,515	—	5,865,515
Blood Diseases and Resources Research	93.839	4,770,524	—	4,770,524
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846	1,366,202	—	1,366,202
Diabetes, Endocrinology, and Metabolism Research	93.847	4,173,157	7,516	4,180,673
Digestive Diseases and Nutrition Research	93.848	2,195,486	—	2,195,486
Kidney Diseases, Urology, and Hematology Research	93.849	3,414,193	—	3,414,193
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	7,337,093	349,755	7,686,848
Biological Basis Research in the Neurosciences	93.854	2,688,411	79,495	2,767,906
Allergy, Immunology, and Transplantation Research	93.855	4,322,112	—	4,322,112
Microbiology and Infectious Diseases Research	93.856	16,094,044	518,554	16,612,598
Biomedical Research and Research Training	93.859	21,121,330	—	21,121,330
Genetics and Developmental Biology Research	93.862	130,314	423,280	553,594
Population Research	93.864	2,255,280	37,743	2,293,023
Child Health and Human Development Extramural Research	93.865	4,025,947	313,753	4,339,700
Aging Research	93.866	4,155,611	55,453	4,211,064
Vision Research	93.867	4,006,630	244,032	4,250,662
Minority Access to Research Careers	93.880	86,192	—	86,192
Grants for Physician Assistant Training Program	93.886	339,262	—	339,262
Special Projects of National Significance	93.928	565,342	—	565,342
Fogarty International Research Collaboration Award	93.934	39,757	—	39,757
International Research and Research Training	93.989	2,576,644	—	2,576,644
Department of Health and Human Services Total		<u>180,632,396</u>	<u>19,442,384</u>	<u>200,074,780</u>
United States Agency for International Development				
USAID Foreign Assistance for Programs Overseas	98.001	<u>4,588,493</u>	<u>265,009</u>	<u>4,853,502</u>
United States Agency for International Development Total		<u>4,588,493</u>	<u>265,009</u>	<u>4,853,502</u>
Social Security Administration:				
Social Security – Research and Demonstration	96.007	<u>—</u>	<u>68,852</u>	<u>68,852</u>
Social Security Administration Total		<u>—</u>	<u>68,852</u>	<u>68,852</u>
Research and Development Total		<u>361,978,743</u>	<u>51,501,038</u>	<u>413,479,781</u>

**CORNELL UNIVERSITY**

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<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
Student Financial Aid:				
Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007	\$ 4,591,299	—	4,591,299
Federal Family Education Loans	84.032	14,076,418	—	14,076,418
Federal Work-Study Program	84.033	3,099,441	—	3,099,441
Federal Perkins Loan Program	84.038	9,355,592	—	9,355,592
Federal Pell Grant Program	84.063	5,724,083	—	5,724,083
Federal Direct Student Loans	84.268	54,498,212	—	54,498,212
Department of Education Total		91,345,045	—	91,345,045
Department of Health and Human Services:				
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	922,937	—	922,937
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	137,434	—	137,434
Department of Health and Human Services Total		1,060,371	—	1,060,371
Student Financial Aid Total		92,405,416	—	92,405,416
Department of Agriculture:				
Department of Agriculture	10.000	815,602	520,170	1,335,772
Agricultural Research Basic and Applied Research	10.001	6,352	—	6,352
Plant and Animal Disease, Pest Control, and Animal Care	10.025	85,022	509,446	594,468
Minority Research and Teaching Grants	10.140	51,559	—	51,559
Marketing Agreements and Orders	10.155	18,493	—	18,493
Grants for Agricultural Research, Special Research Grants	10.200	373,501	61,118	434,619
Payments to Agricultural Experiment Stations Under the Act	10.203	319,977	—	319,977
Grants for Agricultural Research – Competitive Research Grants	10.206	20,830	40,095	60,925
Animal Health and Disease Research	10.207	86,925	—	86,925
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210	138,938	—	138,938
Sustainable Agriculture Research and Education	10.215	6,648	17,145	23,793
Higher Education Challenge Grants	10.217	65,496	—	65,496
Higher Education Multicultural Scholars Program	10.220	54,250	—	54,250
Fund for Rural America – Research, Education, and Extension Activities	10.224	—	12,861	12,861
Agricultural and Rural Economic Research Initiative for Future Agriculture and Food Systems	10.250	500	—	500
Integrated Programs	10.302	578,655	24,396	603,051
Integrated Programs	10.303	—	368,655	368,655
Homeland Security Agricultural	10.304	144,561	—	144,561
Crop Insurance	10.450	187,116	115,651	302,767
Crop Insurance Education in Targeted States	10.458	—	83,536	83,536
Cooperative Extension Service	10.500	12,119,377	293,976	12,413,353
Food Stamps	10.551	—	615,873	615,873
State Administrative Matching Grants for Food Stamp Program	10.561	—	37,735	37,735
Young Adult Conservation Corps	10.663	95,940	—	95,940
Cooperative Forestry Assistance	10.664	11,255	1,316	12,571
Forest Land Enhancement Program	10.677	91	—	91
Forest Stewardship Program	10.678	33,895	—	33,895
National Agricultural Library	10.700	13,603	—	13,603
Environmental Quality Incentives Program	10.912	35,064	—	35,064
Technical Agricultural Assistance	10.960	10,500	—	10,500
International Training – Foreign Participant	10.962	49,450	—	49,450
Department of Agriculture Total		15,323,600	2,701,973	18,025,573

**CORNELL UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
Department of Commerce:				
Department of Commerce	11.000	\$ 151,935	29,613	181,548
Census Geography	11.003	69,150	—	69,150
Economic Development – Technical Assistance	11.303	94,770	—	94,770
Sea Grant Support	11.417	100,187	945,757	1,045,944
Unallied Science Program	11.472	—	12,667	12,667
Department of Commerce Total		<u>416,042</u>	<u>988,037</u>	<u>1,404,079</u>
Department of Defense:				
Department of Defense	12.000	22,575	168,691	191,266
Military Medical Research and Development	12.420	36,624	—	36,624
Basic and Applied Scientific Research	12.300	4,000	43,272	47,272
Air Force Defense Research Sciences Program	12.800	5,000	—	5,000
Department of Defense Total		<u>68,199</u>	<u>211,963</u>	<u>280,162</u>
Department of the Interior:				
Department of Interior	15.000	14,385	—	14,385
Forestry on Indian Lands	15.035	—	3,604	3,604
Assistance to State Water Resources Research Institutes	15.805	9,808	—	9,808
Department of the Interior Total		<u>24,193</u>	<u>3,604</u>	<u>27,797</u>
Department of Labor:				
Work Incentives Grant	17.266	—	9,813	9,813
Department of Labor Total		<u>—</u>	<u>9,813</u>	<u>9,813</u>
Department of State:				
Department of State	19.000	—	528,496	528,496
Professional Development – International	19.404			
Educational Partnerships Program	19.424	102,394	—	102,394
Department of State Total		<u>102,394</u>	<u>528,496</u>	<u>630,890</u>
Department of Transportation:				
State and Community Highway Safety	20.600	—	51,862	51,862
Department of Transportation Total		<u>—</u>	<u>51,862</u>	<u>51,862</u>
Department of the Treasury:				
Community Development Financial Institutions Program	21.020	—	159,190	159,190
Department of the Treasury Total		<u>—</u>	<u>159,190</u>	<u>159,190</u>
National Aeronautics and Space Administration:				
Aerospace Education Services Program	43.001	288,494	—	288,494
National Aeronautics and Space Administration	43.000	—	12,561	12,561
National Aeronautics and Space Administration Total		<u>288,494</u>	<u>12,561</u>	<u>301,055</u>
National Foundation on the Arts and the Humanities:				
Promotion of the Arts Grants to Organizations and Individuals	45.024	9,379	—	9,379
Promotion of the Humanities-Basic Research	45.140	32,535	—	32,535
Promotion of the Humanities Research Materials: Edit	45.146	105,937	—	105,937
Promotion of the Humanities – Division of Preservation and Access	45.149	610,468	—	610,468
Promotion of the Humanities – Public Programs	45.164	80,477	—	80,477

**CORNELL UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
Museum for America Grants	45.301	\$ 70,896	—	70,896
Conservation Project Support	45.303	50,000	—	50,000
National Leadership Grants	45.312	457,499	—	457,499
National Foundation on the Arts and the Humanities Total		<u>1,417,191</u>	<u>—</u>	<u>1,417,191</u>
National Science Foundation:				
Engineering Grants	47.041	101,027	(366)	100,661
Mathematical and Physical Sciences	47.049	314,702	—	314,702
Geosciences	47.050	40,193	—	40,193
Computer and Information Science and Engineering	47.070	345,088	—	345,088
Biological Sciences	47.074	17,892	—	17,892
Education and Human Resources	47.076	4,009,171	98,474	4,107,645
National Science Foundation Total		<u>4,828,073</u>	<u>98,108</u>	<u>4,926,181</u>
Environmental Protection Agency:				
Environmental Protection Agency	66.000	31,791	—	31,791
National Estuary Program	66.456	158,417	13,100	171,517
Nonpoint Source Implementation Grants	66.460	—	186,055	186,055
Great Lakes Program	66.469	4,387	—	4,387
Environmental Protection – Consolidated Research	66.500	54,200	—	54,200
P3 Award: National Student Design Competition for Sustainability	66.516	6,657	—	6,657
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	270,555	108,763	379,318
Surveys, Studies, Investigations, Training Demonstrations	66.716	9,736	—	9,736
Environmental Education Grants	66.951	1,913	—	1,913
Environmental Protection Agency Total		<u>537,656</u>	<u>307,918</u>	<u>845,574</u>
Department of Education:				
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015	\$ 1,582,951	256,293	1,839,244
Overseas – Doctoral Dissertation	84.022	(7,747)	—	(7,747)
Special Education – Grants to States	84.027	—	329,852	329,852
Fund for the Improvement of Postsecondary Education	84.116	—	8,640	8,640
National Institute on Disability and Rehabilitation Research	84.133	1,360,211	(1,383)	1,358,828
Javits Fellowships	84.170	517,425	—	517,425
Graduate Assistance in Areas of National Need	84.200	951,394	—	951,394
Language Resource Centers	84.229	—	8,000	8,000
Special Education Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	—	454	454
Early Childhood Educator Professional Development	84.349	—	10,157	10,157
Department of Education Total		<u>4,404,234</u>	<u>612,013</u>	<u>5,016,247</u>
United States Institute of Peace:				
Unsolicited Grant Program	91.001	—	19,000	19,000
United States Institute of Peace Total		<u>—</u>	<u>19,000</u>	<u>19,000</u>

**CORNELL UNIVERSITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Direct awards</b>	<b>Pass-through awards</b>	<b>Total expenditures</b>
Department of Health and Human Services:				
Department of Health and Human Services	93.000	—	566,834	566,834
Occupational Safety and Health Research Projects	93.262	—	46,475	46,475
Cancer Research Manpower	93.398	(6,142)	—	(6,142)
Temporary Assistance for Needy Families	93.558	—	43,192	43,192
Refugee and Entrant Assistance – Discretionary Grants	93.576	—	80,054	80,054
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	—	524,994	524,994
Developmental Disabilities Basic Support and Advocacy Grants	93.630	—	206,083	206,083
Child Welfare Services Training Grants	93.648	—	22,973	22,973
Foster Care – Title IV-E	93.658	—	865,836	865,836
Social Services Block Grant	93.667	—	37,346	37,346
Child Abuse and Neglect State Grants	93.669	—	7,593	7,593
Cell Biology and Biophysics Research	93.821	74,782	—	74,782
Digestive Diseases and Nutrition Research	93.848	35,316	—	35,316
Microbiology and Infectious Diseases Research	93.856	7,500	—	7,500
Population Research	93.864	26,524	—	26,524
Vision Research	93.867	48,275	—	48,275
Minority Access to Research Careers	93.880	33,551	—	33,551
Resource and Manpower Development in the Environmental Health Sciences	93.894	177,341	—	177,341
International Research and Research Training	93.989	10,800	—	10,800
Department of Health and Human Services Total		<u>407,947</u>	<u>2,401,380</u>	<u>2,809,327</u>
Corporation for National and Community Service:				
Volunteers in Service to America	94.013	14,189	—	14,189
Corporation for National and Community Service Total		<u>14,189</u>	<u>—</u>	<u>14,189</u>
United States Agency for International Development:				
USAID Foreign Assistance Programs Overseas	98.001	101,134	57	101,191
United States Agency for International Development Total		<u>101,134</u>	<u>57</u>	<u>101,191</u>
Social Security Administration:				
Social Security Agency	96.000	975,434	—	975,434
Social Security – Research and Demonstration	96.007	—	14,792	14,792
Social Security Administration Total		<u>975,434</u>	<u>14,792</u>	<u>990,226</u>
Department of Homeland Security:				
Crisis Counseling	97.032	—	(11,468)	(11,468)
Department of Homeland Security Total		<u>—</u>	<u>(11,468)</u>	<u>(11,468)</u>
Total Federal Financial Assistance		<u>\$ 483,292,939</u>	<u>59,610,337</u>	<u>542,903,276</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

## CORNELL UNIVERSITY

### Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

#### (1) Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of Cornell University and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Significant categories of awards for the University are as follows:

**Research and development** – Includes awards for research and development work of the University under grants and contracts primarily funded by the Department of Health and Human Services, the National Science Foundation, the Department of Agriculture, the Department of Defense, the National Aeronautics Space Administration, and the Department of Energy.

**Student financial assistance** – Includes certain awards to provide financial assistance to students, under the Federal Work-Study (FWS), Federal Pell Grant (Pell), and Federal Supplemental Educational Opportunity Grant (FSEOG) programs. Student financial assistance also includes the Federal Perkins, Federal Family Education, Federal Direct, and Health Professions Student guaranteed loan programs of the Department of Education or Department of Health and Human Services. The University receives awards to make loans to eligible students under certain Federal student loan programs and federally-guaranteed loans are issued to students of the University either by various financial institutions or directly by the University.

**Cooperative extension service** – Includes awards issued by the Department of Agriculture under the Smith-Lever Act for public services and education provided by cooperative extension locations in each county of New York and New York City.

**Education and Human Resources (EHR)** – Supports the development of models and strategies for providing all students with access to high-quality, standards-based education. This program includes support for research on learning and teaching that informs education practice; comprehensive, standards-based instructional materials effective in increasing student achievement; strategies for developing deep content knowledge and teaching skills for the instructional workforce; and research, development, and implementation of next-generation learning technologies.

#### (2) Facilities and Administrative Costs

Certain expenditures include a portion of costs associated with general university activities (Facilities and Administrative Costs), which are allocated to awards under negotiated formulas commonly referred to as Facilities and Administrative (F&A) cost rates (formerly known as indirect cost rates).

Federal F&A cost recoveries for the fiscal year ended June 30, 2005 totaled \$108,216,149 including \$67,374,637 for the Ithaca campus and \$40,841,512 for Weill Medical College (WMC).

##### *Ithaca Campus*

F&A cost rates for the Ithaca Campus have been finalized through fiscal year 2009 as predetermined rates pursuant to the Department of Health and Human Services (DHHS) rate agreement dated October 26, 2005. Provisional rates have been established for fiscal year 2010 and beyond.



**CORNELL UNIVERSITY**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

***Weill Medical College***

F&A cost rates for the WMC have been finalized through fiscal year 2006 as predetermined rates pursuant to the Department of Health and Human Services (DHHS) rate agreement dated June 17, 2003. Provisional rates have been established for fiscal year 2007 and beyond.

**(3) Student Loan Programs**

The University had the following loan balances outstanding at June 30, 2005. These balances are not included in the Federal expenditures presented in the Schedule.

	<u>CFDA number</u>		<u>Amount outstanding</u>
Federal Perkins Loan Program	84.038	\$	44,033,284
Health Professions Student Loan Program, including Primary Care Loans and Loans for Disadvantaged Students	93.342		<u>3,648,051</u>
		\$	<u><u>47,681,335</u></u>

The loan programs noted above are administered directly by the University and balances and transactions relating to these programs are included in the University's basic financial statements. The schedule of expenditures of federal awards includes loan expenditures and disbursements to students and administrative costs of the loan programs for the year ended June 30, 2005.

The University issued the following amounts of new loans under the Federal Direct Loan and Federal Family Education Loan Programs to students of the University during the year ended June 30, 2005:

Federal Direct Loan Program (FDLP):	
Federal Subsidized	\$ 34,689,308
Federal Unsubsidized	<u>19,808,904</u>
Total FDLP	\$ <u>54,498,212</u>
Federal Family Education Loan Program	\$ <u><u>14,076,418</u></u>

The University is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan and the Federal Direct Loan programs and, accordingly, these loans are not included in the University's basic financial statements. It is not practical to determine the balance of loans outstanding under these programs at June 30, 2005.

**(4) Pass-Through Awards and Subrecipients**

The University receives pass-through awards from 529 not-for-profit organizations. Accordingly, it is not practical to identify in the schedule of expenditures of federal awards each organization from which the University receives such pass-through awards. In addition, the University has 555 subrecipients of its federal funds. Due to the large number of programs and sponsors, it is not practical to disclose the amount of payments to subrecipients.



**KPMG LLP**  
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Rochester, NY 14604

**Independent Auditors' Report on Internal Control over Financial Reporting  
and Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of Trustees  
Cornell University:

We have audited the financial statements of Cornell University as of and for the year ended June 30, 2005, and have issued our report thereon dated September 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Cornell University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cornell University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Cornell University in a separate letter dated September 6, 2005.



This report is intended solely for the information and use of the Audit Committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 6, 2005  
Rochester, New York



**KPMG LLP**  
265 Clinton Square  
Rochester, NY 14604

**Independent Auditors' Report on Compliance with Requirements  
Applicable to each Major Program and Internal Control over  
Compliance in Accordance with OMB Circular A-133**

The Board of Trustees  
Cornell University:

**Compliance**

We have audited the compliance of Cornell University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. Cornell University's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Cornell University's management. Our responsibility is to express an opinion on Cornell University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Cornell University's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cornell University's compliance with those requirements.

In our opinion, Cornell University complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005.

**Internal Control over Compliance**

The management of Cornell University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Cornell University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Cornell University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Audit Committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 31, 2006  
Rochester, New York

**CORNELL UNIVERSITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**I. Summary of Auditors' Results:**

***Financial Statements***

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified that are not considered to be material weaknesses?  yes  none reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs or Clusters</u>
47.076	Education and Human Resources
Various	Research and Development Cluster
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.342, and 93.925	Student Financial Assistance Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000

Auditee qualified as low-risk auditee?  yes  no

**II. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:**

None Reported

**CORNELL UNIVERSITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**III. Findings and Questioned Costs Relating to Federal Awards:**

**Finding:** 2005-1

**Federal Agencies:** U.S. Department of Education  
U.S. Department of Health and Human Services

**Program:** Student Financial Assistance Cluster

**Program Year:** July 1, 2004 to June 30, 2005

**CFDA Numbers:** 84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.342, and 93.925

***Criteria upon Which the Audit Finding is Based:***

The A-102 Common Rule and OMB Circular A110 require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

***Condition Found:***

It was noted in fiscal 2004, during an audit performed by the University's internal audit department, that Student Financial Aid counselors have the ability to change parameters within the student profiles. Such parameters might include cost of attendance, student resources, income, family data, and other items affecting the calculation of the aid amounts. Once the counselors prepare the initial award information and check the packaging based on the initial stated parameters, there is no additional review.

During the 2005 audit it was noted that in response to the 2004 audit finding, management of the University implemented the following control:

- *Each semester, the Office of Financial Aid and Student Employment Director and Assistant Director reviewed a random sample of 60 financial aid files, examined any manual changes, and reviewed system notes.*

Although the above control aids in the remediation of the 2004 finding, it does not completely remediate it, as it only addresses a limited review of changed files, and does not compare results to source documents. Given this, we believe the policies covering the review of the student financial aid files are still not sufficient.

***Questioned Costs:***

None.

***Perspective:***

The lack of this control is a systemic problem.

***Possible Effect:***

Without sufficient review, errors could be made in granting financial aid to students.

## CORNELL UNIVERSITY

### Schedule of Findings and Questioned Costs

Year ended June 30, 2005

#### ***Recommendation:***

We recommend that the University establish and maintain appropriate internal controls to review student financial aid.

#### ***View of Responsible Officials:***

We acknowledge the concerns that have been raised. The Office of Financial Aid and Student Employment continues to strengthen the internal controls over the financial aid awarding process. Since the initial review of 120 profiles described above, several enhancements have been made to the quality assurance program, designed to ensure consistency, accuracy, completeness and adherence to institutional policies and federal regulations for packaging and awarding financial aid. The components of the program, which commenced in December 2005, are:

- Financial aid applications are now read in the order in which they arrive in the office instead of alphabetically by counselor. Counselors will review different applications each year thus ensuring a fresh look at applications each year.
- Random reviews of aid applications have begun and will occur throughout the year. These are conducted by department managers and include a check of the entire aid awarding process – from source data to aid award. These checks will take place before the aid award notice is mailed to the student, and the results will be documented.
- The semiannual, 60 aid application reviews will be continued. These checks will be enhanced to include a review of the application from source documents through the appeal and resolution process.

Management has developed modifications to the original exception report to enhance its usefulness in identifying significant adjustments. The exception report will be run on a monthly basis and a sample of 3% will be reviewed. The first review has begun and is designed to ensure that there is appropriateness, consistency, and adequacy of documentation. The review is being documented to include any concerns noted. Running the reports monthly gives the financial aid managers a clearer picture of the cause of large adjustments and the review can be modified accordingly.



**CORNELL UNIVERSITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**IV. Status of Prior Year Finding**

**Finding: 2004-1**

In prior year, the University had the following finding:

It was noted during an audit performed by the University's internal audit department that Student Financial Aid counselors have the ability to change parameters within the student profiles. Such parameters might include cost of attendance, student resources, income, family data, and other items affecting the calculation of the aid amounts. Once the counselors prepare the initial award information and check the packaging based on the initial stated parameters, there is no additional review.

See Finding 2005-1 for the current year status of this prior year's finding.