



CORNELL UNIVERSITY

OMB Circular A-133 Audit Reports

June 30, 2006

(With Independent Auditors' Report Thereon)

CORNELL UNIVERSITY

Table of Contents

	Page
Independent Auditors' Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	1
Basic Financial Statements	3
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	29
Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	33
Schedule of Findings and Questioned Costs	35



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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2006, 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 28, 2006
Rochester, New York

[WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2005]

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

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

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006 (IN THOUSANDS)

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2005)

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

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

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

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

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

financial statements of not-for-profit organizations require a statement of financial position, a statement of activities, and a statement of cash flows, and are displayed based on the concept of "net assets." The audit guide requires presentation of net assets and revenues, expenses, gains, and losses in three categories based on the presence or absence of donor-imposed restrictions. The categories are Permanently Restricted, Temporarily Restricted, and Unrestricted Net Assets.

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

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

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

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

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

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

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

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

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

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

C. Living Trust Agreements

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

D. Funds Held in Trust by Others

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

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

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

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

	Net Asset Classification			2006	2005
	Unrestricted	Temporarily Restricted	Permanently Restricted		
1 True endowment and appreciation on true endowments, including contributions receivable of \$63,962	\$ 1,471,324		\$ 1,386,935	\$ 2,858,259	\$ 2,508,332
2 Funds functioning as endowment	1,257,443	\$ 100,464		1,357,907	1,215,855
3 Funds held in trust		42,969	126,026	168,995	135,423
4 Total university endowment	<u>2,728,767</u>	<u>143,433</u>	<u>1,512,961</u>	<u>4,385,161</u>	<u>3,859,610</u>
5 Funds subject to living trust agreements		52,495	40,123	92,618	82,567
6 Student loan funds			34,520	34,520	32,084
7 Total	<u>\$ 2,728,767</u>	<u>\$ 195,928</u>	<u>\$ 1,587,604</u>	<u>\$ 4,512,299</u>	<u>\$ 3,974,261</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 2005-06 and 2004-05 were \$9,782,018 and \$2,335,839, respectively.

E. Funds Held in Trust for Others

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

F. Medical Physicians' Organization

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

G. Collections

Cornell's collections, which have been acquired through purchases and contributions since the university's inception,

are recognized as capital assets in the *Statement of Financial Position*. Gifts of collection items are recorded, at fair value, as increases in net assets in the year in which the items are acquired.

H. Derivative Instruments and Hedging Activities

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

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

I. Use of Estimates

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

J. Comparative Financial Information

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

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

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

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

K. New Accounting Pronouncement

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

L. Reclassifications

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

M. Income Taxes

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. General Information

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

Private equities, real estate partnerships, and certain other nonmarketable securities are valued using current information obtained from the general partner or investment manager for the respective funds. The estimated values are reviewed and evaluated by the university. These investments are generally

less liquid than other investments and the values reported by the general partner or investment manager may differ from the values that would have been reported had a ready market for these securities existed.

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

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

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

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

B. Collateral Held for Investments Lent to Brokerage Firms

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

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

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

C. Investment Pools and Separately Invested Portfolios

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

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

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

The university has a total return policy. Under this policy, a distribution is provided from the pool that is independent of the cash yield and investment changes occurring in a given year. This insulates investment policy from budgetary pressures and insulates the distribution from fluctuations in capital markets. Distributions from the pool are approved by the Board of Trustees as part of the financial planning process. The annual distribution is set so that,

over time, a sufficient portion of the return is reinvested to maintain the purchasing power of the endowment, and to provide reasonable growth in support of program budgets.

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

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

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

TABLE 4. SUMMARY INFORMATION - LONG-TERM INVESTMENT POOL

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

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

D. Other Investments

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

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

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

instruments are used to adjust the foreign currency exposure of the investment portfolio for securities whose prices are denominated in foreign currencies.

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

3. ACCOUNTS AND LOANS RECEIVABLE

A. Patient Accounts and Other

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

B. Contributions

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

TABLE 5. CONTRIBUTIONS RECEIVABLE (IN THOUSANDS)

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

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

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

C. Student Loans

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

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

4. PLEDGED ASSETS AND FUNDS ON DEPOSIT

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

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

5. PHYSICAL CAPITAL

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

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

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

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

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

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

6. BONDS, MORTGAGES, AND NOTES PAYABLE

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

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

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

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

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

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

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

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

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

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

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

7. BENEFIT PLANS

A. Pension Plans

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

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

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

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

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

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

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

TABLE 8. ANNUAL DEBT SERVICE REQUIREMENTS (IN THOUSANDS)

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

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

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

The assets are invested for the sole benefit of the plans' beneficiaries. Consistent with that objective, investments are managed to maximize total return while maintaining a prudent

limitation on risk. Risk mitigation is achieved by diversifying investments across multiple asset classes, by investing in high-quality securities and by permitting flexibility in the balance of investments in the permitted asset classes. The expected return on assets was derived based on long-term assumptions of inflation, real returns (which are primarily historically based), anticipated value added by the investment managers, and expected average asset class allocations.

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

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

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

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

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

Estimated future employer contributions (in thousands)

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

Estimated future benefit payments from the trust (in thousands)

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

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

Weighted-average assumptions used to determine benefit obligations at end of year

11 Discount rate	6.00%	6.00%	5.00%	5.00%
12 Rate of compensation increase	4.00%	6.10%	4.00%	6.10%

Combined plan assets

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

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

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

B. Postretirement Benefits Other Than Pensions

The university provides health and life insurance benefits for eligible retired employees and their dependents. Although there is no legal obligation for future benefits, the cost of 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.

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

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

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

	2006		2005		
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College	
Weighted-average assumptions used to determine net periodic postretirement benefit cost as of July 1					
1 Discount rate	5.00%	5.00%	6.00%	6.00%	
2 Expected return on plan assets	8.00%	8.00%	8.00%	8.00%	
Weighted-average assumptions used to determine benefit obligations at end of year					
3 Discount rate	6.00%	6.00%	5.00%	5.00%	
Assumed health care cost trend rates at end of year					
4 Health care cost trend rate assumed for next year	9.00%	9.00%	10.00%	10.00%	
5 Ultimate trend rate	5.00%	5.00%	5.00%	5.00%	
6 Years to reach ultimate trend rate	4	4	5	5	
	2006		2005		
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College	
Effect of 1 percentage point change in assumption of health care cost trend rate					
1-Percentage point increase					
7 Effect on total service cost and interest cost	\$ 6,184	\$ 1,486	\$ 4,633	\$ 924	
8 Effect on accumulated postretirement benefit obligation as of June 30	\$ 47,754	\$ 8,293	\$ 49,687	\$ 6,789	
1-Percentage point decrease					
9 Effect on total of service and interest cost	\$ (4,743)	\$ (1,181)	\$ (3,757)	\$ (778)	
10 Effect on accumulated postretirement benefit obligation as of June 30	\$ (37,903)	\$ (6,777)	\$ (42,326)	\$ (5,998)	
Combined plan assets					
Asset category	Target Allocation	Percentage of Plan Assets at June 30		Expected Return on Plan Assets	
	2007	2006	2005	2006	2005
11 Equity securities	39-85%	75.0%	75.7%	9.25%	9.25%
12 Debt securities	15-55%	25.0%	24.3%	6.00%	6.00%
13 Real estate	0-5%	0.0%	0.0%	7.50%	7.50%
14 Total		100.0%	100.0%		

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

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

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

C. Postemployment Benefits

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

8. OPERATING LEASES

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

9. FUNCTIONAL EXPENSES AND STUDENT AID

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

Institutionally provided student financial assistance that is not given in exchange for services is shown as a discount against revenue rather than as an expense. Aid in excess of

the institution's actual tuition and fees, of \$21,462,819 and \$20,527,266 for fiscal years 2005-06 and 2004-05, respectively, is classified as Instruction expense.

10. CONTINGENT LIABILITIES

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

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

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

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

TABLE 12. FUNCTIONAL EXPENSES (IN THOUSANDS)

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

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Research and Development:				
Department of Agriculture:				
Department of Agriculture	10.000	\$ 298,198	427,806	726,004
Agricultural Research – Basic and Applied Research	10.001	4,791,242	6,874	4,798,116
Plant and Animal Disease, Pest Control, and Animal Care	10.025	123,292	75,218	198,510
Inspection Grading and Standardization	10.162	180,028	—	180,028
Grants for Agricultural Research, Special Research Grants	10.200	6,740,420	858,139	7,598,559
Cooperative Forestry Research	10.202	128,730	—	128,730
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	4,940,138	—	4,940,138
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	—	45,065	45,065
Grants for Agricultural Research – Competitive Research Grants	10.206	5,498,009	214,639	5,712,648
Animal Health and Disease Research	10.207	228,802	—	228,802
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210	3,000	—	3,000
Small Business Innovation Research	10.212	—	25,176	25,176
Sustainable Agriculture Research and Education	10.215	—	20,460	20,460
Higher Education Challenge Grants	10.217	25,186	25,195	50,381
Fund for Rural America Research, Education, and Extension Activities	10.224	30,672	—	30,672
Agricultural and Rural Economic Research	10.250	62,322	—	62,322
Initiative for Future Agriculture and Food Systems	10.302	506,846	88,272	595,118
Integrated Programs	10.303	1,600,861	252,443	1,853,304
Homeland Security Agricultural	10.304	412,136	—	412,136
International Science and Education Grants (B)	10.305	95,855	—	95,855
Organic Agriculture Research and Extension Initiative	10.307	120,222	—	120,222
State Administrative Matching Grants for Food Stamp Program	10.561	—	7,007	7,007
Forestry Research	10.652	132,290	—	132,290
Cooperative Forestry Assistance	10.664	29,415	26,806	56,221
Urban and Community Forestry Program	10.675	9,334	—	9,334
Forest Stewardship Program	10.678	8,695	—	8,695
Forest Health Protection (A,B)	10.680	31,686	—	31,686
1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856	39,013	—	39,013
Environmental Quality Incentives Program	10.912	2,059	—	2,059
Technical Agricultural Assistance	10.960	7,869	—	7,869
Scientific Cooperation and Research	10.961	97,664	—	97,664
Department of Agriculture Total		26,143,984	2,073,100	28,217,084
Department of Commerce:				
Department of Commerce	11.000	96,621	201,657	298,278
Census Geography	11.003	175,752	—	175,752
ITA Special Projects	11.113	—	872,736	872,736
Grants for Public Works and Economic Development Facilities	11.300	1,013,221	—	1,013,221
Sea Grant Support	11.417	—	335,107	335,107
Coastal Zone Management Administration Awards	11.419	—	108,193	108,193
Climate and Atmospheric Research	11.431	180,155	74,167	254,322
Special Oceanic and Atmospheric Projects	11.460	—	21,599	21,599
Applied Meteorological Research	11.468	411,769	—	411,769
Unallied Science Program	11.472	397,614	31,094	428,708
Coastal Services Center	11.473	—	17,559	17,559
Center for Sponsored Coastal Ocean Research Coastal Ocean Program	11.478	5,150	55,008	60,158
Measurement and Engineering Research and Standards	11.609	5,600	—	5,600
Department of Commerce Total		2,285,882	1,717,120	4,003,002
Department of Defense:				
Department of Defense	12.000	2,856,829	2,251,079	5,107,908
Collaborative Research and Development	12.114	—	206,556	206,556
Basic and Applied Scientific Research	12.300	3,600,809	1,597,173	5,197,982

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Military Medical Research and Development	12.420	\$ 202,780	—	202,780
Basic Scientific Research	12.431	1,896,177	456,801	2,352,978
Basic, Applied, and Advanced Research in Science and Engineering	12.630	1,251,314	675,207	1,926,521
Air Force Defense Research Sciences Program	12.800	4,143,511	252,517	4,396,028
Mathematical Sciences Grants Program	12.901	108,484	—	108,484
Research and Technology Development	12.910	1,145,219	275,123	1,420,342
Department of Defense Total		15,205,123	5,714,456	20,919,579
Department of Housing and Urban Development:				
Department of Housing and Urban Development	14.000	3,965	—	3,965
Department of Housing and Urban Development Total		3,965	—	3,965
Department of the Interior:				
Department of Interior	15.000	90,639	9,999	100,638
Fish and Wildlife Management Assistance	15.608	38,491	—	38,491
Cooperative Endangered Species Conservation Fund	15.615	273,288	8,611	281,899
Assistance to State Water Resources Research Institutes	15.805	197,103	—	197,103
U.S. Geological Survey – Research and Data Collection	15.808	305,607	11,075	316,682
Gap Analysis Program	15.811	37,520	—	37,520
Cooperative Research Units Program	15.812	172,419	—	172,419
Rivers, Trails, and Conservation Assistance	15.921	86,849	—	86,849
Department of the Interior Total		1,201,916	29,685	1,231,601
Department of Justice:				
Criminal Justice Research and Development:				
Department of Justice	16.000	246,576	—	246,576
Department of Justice Total		246,576	—	246,576
Department of State:				
Department of State	19.000	—	1,058,457	1,058,457
Department of State Total		—	1,058,457	1,058,457
Department of Transportation:				
Department of Transportation	20.000	393,451	—	393,451
Highway Planning and Construction	20.205	—	2,747,114	2,747,114
Highway Training and Education	20.215	—	71,897	71,897
Department of Transportation Total		393,451	2,819,011	3,212,462
General Services Administration:				
General Services Administration	39.000	—	1,720	1,720
General Services Administration Total		—	1,720	1,720
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration	43.000	2,066,934	930,916	2,997,850
Aerospace Education Services Program	43.001	2,466,374	9,203,024	11,669,398
Technology Transfer	43.002	63,188	55,299	118,487
National Aeronautics and Space Administration Total		4,596,496	10,189,239	14,785,735
National Foundation on the Arts and the Humanities:				
National Leadership Grants	45.312	129,735	—	129,735
National Leadership Grants Total		129,735	—	129,735
National Science Foundation:				
Engineering Grants	47.041	27,110,195	1,411,926	28,522,121
Mathematical and Physical Sciences	47.049	57,612,698	931,476	58,544,174
Geosciences	47.050	5,663,905	149,176	5,813,081

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Computer and Information Science and Engineering	47.070	\$ 9,015,590	190,748	9,206,338
Biological Sciences	47.074	16,098,870	2,881,281	18,980,151
Social, Behavioral, and Economic Sciences	47.075	3,384,137	4,265	3,388,402
Education and Human Resources	47.076	4,330,278	112,765	4,443,043
Polar Programs	47.078	187,706	72,417	260,123
National Science Foundation Total		123,403,379	5,754,054	129,157,433
Environmental Protection Agency:				
Environmental Protection Agency	66.000	—	263,364	263,364
Construction Grants for Wastewater Treatment Works	66.400	—	33,977	33,977
Grants – Section 1442 of the Safe Drinking Water Act	66.424	—	19,993	19,993
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements	66.436	14,222	—	14,222
National Estuary Program	66.456	44,117	—	44,117
Nonpoint Source Implementation Grants	66.460	20,147	83,837	103,984
Water Quality Cooperative Agreements	66.463	31,266	—	31,266
Great Lakes Program	66.469	—	21,874	21,874
Environmental Protection Consolidated Research	66.500	—	27,615	27,615
Science To Achieve Results (STAR) Program	66.509	267,210	—	267,210
Office of Research and Development Consolidated Research	66.511	63,593	191,396	254,989
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	48,633	6,756	55,389
Pollution Prevention Grants Program	66.708	36,008	—	36,008
Environmental Protection Agency Total		525,196	648,812	1,174,008
Department of Energy:				
Department of Energy	81.000	1,038,113	1,223,556	2,261,669
Office of Science Financial Assistance Program	81.049	3,015,152	613,782	3,628,934
Renewable Energy Research and Development	81.087	—	55,859	55,859
University Reactor Infrastructure and Education Support	81.114	2,175,938	—	2,175,938
Department of Energy Total		6,229,203	1,893,197	8,122,400
Department of Education:				
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015	498,527	7,481	506,008
International Research and Studies	84.017	76,533	25,449	101,982
Overseas – Faculty Research Abroad	84.019	819	—	819
Overseas Doctoral Dissertation	84.022	60,035	—	60,035
Fund for the Improvement of Postsecondary Education	84.116	—	8,863	8,863
National Institute on Disability and Rehabilitation Research	84.133	1,828,452	—	1,828,452
Education Research, Development, and Dissemination	84.305	159,728	—	159,728
Special Education Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	—	12,864	12,864
International Education Technological Innovation and Cooperation for Foreign Information Access	84.337	—	11,216	11,216
National Assessment of Educational Progress (NAEP)	84.902	14,554	—	14,554
Department of Education Total		2,638,648	65,873	2,704,521
United States Institute of Peace:				
Solicited Grant Program	91.002	20,281	—	20,281
United States Institute of Peace Total		20,281	—	20,281

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Department of Health and Human Services:				
Department of Health and Human Services	93.000	\$ 4,206,840	16,000,492	20,207,332
Innovations in Applied Public Health Research	93.061	687,574	—	687,574
Food and Drug Administration – Research	93.103	346,769	—	346,769
Maternal and Child Health Federal Consolidated Programs	93.110	157,505	—	157,505
Biological Response to Environmental Health Hazards	93.113	427,986	78,983	506,969
Applied Toxicological Research and Testing	93.114	313,428	—	313,428
Biometry and Risk Estimation – Health Risks from Environmental Exposures	93.115	—	37,315	37,315
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	—	39,548	39,548
Oral Diseases and Disorders Research	93.121	670,570	319,508	990,078
AIDS Education and Training Centers	93.145	—	38,403	38,403
Human Genome Research	93.172	491,880	92,341	584,221
Research Related to Deafness and Communication Disorders	93.173	1,553,290	—	1,553,290
Research and Training in Complementary and Alternative Medicine	93.213	298,090	—	298,090
National Research Service Awards Health Services Research Training	93.225	305,267	—	305,267
Research on Healthcare Costs, Quality, and Outcomes	93.226	96,888	—	96,888
Mental Health Research Grants	93.242	10,024,213	22,509	10,046,722
Alcohol Research Programs	93.273	860,046	—	860,046
Drug Abuse Scientist Development Awards, Research Scientist Development Awards, and Research Scientist Awards	93.277	519,335	—	519,335
Drug Abuse National Research Service Award for Research Training	93.278	413,546	—	413,546
Drug Abuse Research Programs	93.279	8,024,843	110,487	8,135,330
Mental Health Research Career/Scientist Development Awards	93.281	1,412,104	187,131	1,599,235
Mental Health National Research Service Awards for Research Training	93.282	448,507	—	448,507
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	208,670	—	208,670
Discovery and Applied Research	93.286	1,330,356	—	1,330,356
Comparative Medicine Program	93.306	232,221	—	232,221
Minority Health and Health Disparities Research	93.307	254,913	—	254,913
Trans-NIH Research Support (B,M)	93.310	1,506	—	1,506
General Clinical Research Centers	93.333	5,626,078	—	5,626,078
Biomedical Research Technology	93.371	702,349	403,632	1,105,981
National Center for Research Resources	93.389	8,301,539	—	8,301,539
Cancer Cause and Prevention Research	93.393	4,602,229	3,548	4,605,777
Cancer Detection and Diagnosis Research	93.394	5,065,965	—	5,065,965
Cancer Treatment Research	93.395	1,997,413	6,788	2,004,201
Cancer Biology Research	93.396	4,291,113	—	4,291,113
Cancer Centers Support Grants	93.397	—	60,626	60,626
Cancer Research Manpower	93.398	1,313,536	—	1,313,536
Cancer Control	93.399	1,421,314	4,371	1,425,685
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	120,245	—	120,245
Social Services Research and Demonstration	93.647	18,220	—	18,220
Child Abuse and Neglect Discretionary Activities	93.670	529,369	24,734	554,103
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	—	10,607	10,607
Cell Biology and Biophysics Research	93.821	2,756,155	175,939	2,932,094
Heart and Vascular Diseases Research	93.837	22,039,320	93,682	22,133,002
Lung Diseases Research	93.838	6,373,587	113,771	6,487,358
Blood Diseases and Resources Research	93.839	6,365,585	—	6,365,585
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846	1,848,155	—	1,848,155
Diabetes, Endocrinology, and Metabolism Research	93.847	5,208,931	18,606	5,227,537
Digestive Diseases and Nutrition Research	93.848	2,341,128	—	2,341,128
Kidney Diseases, Urology, and Hematology Research	93.849	3,470,465	—	3,470,465
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	9,885,516	545,281	10,430,797
Biological Basis Research in the Neurosciences	93.854	784,717	—	784,717
Allergy, Immunology, and Transplantation Research	93.855	5,496,272	—	5,496,272
Microbiology and Infectious Diseases Research	93.856	20,578,681	538,157	21,116,838
Biomedical Research and Research Training	93.859	23,592,360	269,945	23,862,305

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Genetics and Developmental Biology Research	93.862	\$ —	275,440	275,440
Population Research	93.864	1,408,849	56,121	1,464,970
Child Health and Human Development Extramural Research	93.865	5,102,369	268,636	5,371,005
Aging Research	93.866	4,512,629	—	4,512,629
Vision Research	93.867	4,512,732	202,396	4,715,128
Minority Access to Research Careers	93.880	27,800	—	27,800
Grants for Physician Assistant Training Program	93.886	613,598	—	613,598
Resource and Manpower Development in the Environment Health Sciences	93.894	183,739	—	183,739
Special Projects of National Significance	93.928	352,162	—	352,162
Fogarty International Research Collaboration Award	93.934	23,877	—	23,877
International Research and Research Training	93.989	1,878,661	—	1,878,661
Department of Health and Human Services Total		196,633,005	19,998,997	216,632,002
United States Agency for International Development:				
United States Agency for International Development	98.000	6,053,311	271,605	6,324,916
USAID Foreign Assistance for Programs Overseas	98.001	370,584	312,283	682,867
United States Agency for International Development Total		6,423,895	583,888	7,007,783
Research and Development Total		386,080,735	52,547,609	438,628,344
Student Financial Aid:				
Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007	4,290,071	—	4,290,071
Federal Family Education Loans	84.032	15,137,632	—	15,137,632
Federal Work-Study Program	84.033	2,805,415	—	2,805,415
Federal Perkins Loan Program	84.038	9,950,159	—	9,950,159
Federal Pell Grant Program	84.063	5,176,979	—	5,176,979
Federal Direct Student Loans	84.268	51,820,544	—	51,820,544
Department of Education Total		89,180,800	—	89,180,800
Department of Health and Human Services:				
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	1,208,572	—	1,208,572
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	233,053	—	233,053
Department of Health and Human Services Total		1,441,625	—	1,441,625
Student Financial Aid Total		90,622,425	—	90,622,425
Department of Agriculture:				
Department of Agriculture	10.000	303,928	33,391	337,319
Agricultural Research Basic and Applied Research	10.001	20,439	—	20,439
Plant and Animal Disease, Pest Control, and Animal Care	10.025	99,140	1,428,238	1,527,378
Minority Research and Teaching Grants	10.140	60,354	—	60,354
Marketing Agreements and Orders	10.155	38,357	—	38,357
Grants for Agricultural Research, Special Research Grants	10.200	228,881	44,612	273,493
Payments to Agricultural Experiment Stations Under the Act	10.203	219,803	—	219,803
Grants for Agricultural Research – Competitive Research Grants	10.206	1,512	22,085	23,597
Animal Health and Disease Research	10.207	6,754	—	6,754
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210	(8,508)	—	(8,508)
Higher Education Challenge Grants	10.217	51,979	—	51,979
Higher Education Multicultural Scholars Program	10.220	62,762	—	62,762
Fund for Rural America – Research, Education, and Extension Activities	10.224	—	10,589	10,589
Agricultural and Rural Economic Research	10.250	9,228	—	9,228
Initiative for Future Agriculture and Food Systems Integrated Programs	10.302	452,686	21,149	473,835
Integrated Programs	10.303	—	386,913	386,913
Homeland Security Agricultural	10.304	273,281	—	273,281

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Crop Insurance Education in Targeted States	10.458	\$ —	251,252	251,252
Cooperative Extension	10.500	12,972,291	439,647	13,411,938
Food Stamps	10.551	—	612,475	612,475
State Administrative Matching Grants for Food Stamp Program	10.561	—	22,743	22,743
Young Adult Conservation Corps	10.663	13,195	—	13,195
Cooperative Forestry Assistance	10.664	23,525	1,184	24,709
Forest Land Enhancement Program	10.677	62,874	—	62,874
Forest Stewardship Program	10.678	68,424	—	68,424
Environmental Quality Incentives Program	10.912	60,590	—	60,590
Technical Agricultural Assistance	10.960	19,500	—	19,500
International Training – Foreign Participant	10.962	17,540	—	17,540
Department of Agriculture Total		15,058,535	3,274,278	18,332,813
Department of Commerce:				
Department of Commerce	11.000	8,607	36,852	45,459
Census Geography	11.003	65,399	—	65,399
Census Intergovernmental Services	11.004	148,575	—	148,575
Economic Development – Technical Assistance	11.303	58,673	—	58,673
Sea Grant Support	11.417	74,734	838,145	912,879
Unallied Science Program	11.472	—	14,045	14,045
Department of Commerce Total		355,988	889,042	1,245,030
Department of Defense:				
Department of Defense	12.000	30,142	23,534	53,676
Basic and Applied Scientific Research	12.300	8,539	—	8,539
Military Medical Research and Development	12.420	33,494	—	33,494
Air Force Defense Research Sciences Program	12.431	8,000	—	8,000
Department of Defense Total		80,175	23,534	103,709
Department of Housing and Urban Development:				
Department of Housing and Urban Development	14.000	—	15,359	15,359
Lead Outreach Grants	14.904	—	72,659	72,659
Department of Housing and Urban Development Total		—	88,018	88,018
Department of the Interior:				
Department of Interior	15.000	14,709	—	14,709
Forestry on Indian Lands	15.035	—	17,090	17,090
Wildlife Conservation and Appreciation	15.617	5,390	—	5,390
Administrative Grants for Federal Aid in Sport and Wildlife Restoration	15.618	—	23,259	23,259
Assistance to State Water Resources Research Institutes	15.805	14,853	—	14,853
Department of the Interior Total		34,952	40,349	75,301
Department of Labor:				
Employment Programs for People with Disabilities	17.720	—	48,537	48,537
Department of Labor Total		—	48,537	48,537
Department of State:				
Department of State	19.000	—	450,501	450,501
Educational Partnerships Program	19.424	72,376	—	72,376
Department of State Total		72,376	450,501	522,877
Department of Transportation:				
State and Community Highway Safety	20.600	—	29,148	29,148
Department of Transportation Total		—	29,148	29,148
National Aeronautics and Space Administration:				
Aerospace Education Services Program	43.001	(3,801)	—	(3,801)
National Aeronautics and Space Administration	43.000	—	2,439	2,439
National Aeronautics and Space Administration Total		(3,801)	2,439	(1,362)
National Foundation on the Arts and the Humanities:				
Promotion of the Arts Grants to Organizations and Individuals	45.024	18,905	—	18,905
Promotion of the Humanities-Basic Research	45.140	35,675	—	35,675
Promotion of the Humanities Research Materials: Edit	45.146	194,704	—	194,704

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Promotion of the Humanities – Division of Preservation and Access	45.149	\$ 300,852	—	300,852
Museum for America Grants	45.301	43,582	—	43,582
National Leadership Grants	45.312	400,772	—	400,772
National Foundation on the Arts and the Humanities Total		994,490	—	994,490
National Science Foundation:				
Engineering Grants	47.041	77,727	—	77,727
Mathematical and Physical Sciences	47.049	21,173	1,173	22,346
Geosciences	47.050	(9,086)	—	(9,086)
Computer and Information Science and Engineering	47.070	270,267	—	270,267
Biological Sciences	47.074	(15,363)	—	(15,363)
Education and Human Resources	47.076	3,467,498	60,999	3,528,497
National Science Foundation Total		3,812,216	62,172	3,874,388
Environmental Protection Agency:				
Environmental Protection Agency	66.000	28,704	30,000	58,704
Long Island Sound Program	66.437	85,892	—	85,892
National Estuary Program	66.456	75,681	71,859	147,540
Nonpoint Source Implementation Grants	66.460	—	163,949	163,949
Great Lakes Program	66.469	—	—	—
Environmental Protection – Consolidated Research	66.500	75,077	—	75,077
Science To Achieve Results (STAR) Fellowship Program	66.514	2,991	—	2,991
P3 Award: National Student Design Competition for Sustainability	66.516	134	—	134
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	107,723	95,011	202,734
Surveys, Studies, Investigations, Training Demonstrations	66.716	31,380	—	31,380
Environmental Education Grants	66.951	19,758	—	19,758
Environmental Protection Agency Total		427,340	360,819	788,159
Department of Education:				
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015	1,775,097	278,304	2,053,401
Overseas – Doctoral Dissertation	84.022	27	—	27
Special Education – Grants to States	84.027	—	395,900	395,900
Fund for the Improvement of Postsecondary Education	84.116	—	9	9
National Institute on Disability and Rehabilitation Research	84.133	1,218,050	—	1,218,050
Javits Fellowships	84.170	377,290	—	377,290
Graduate Assistance in Areas of National Need	84.200	962,233	—	962,233
Language Resource Centers	84.229	—	8,300	8,300
Department of Education Total		4,332,697	682,513	5,015,210
United States Institute of Peace:				
Solicited Grant Program	91.002	—	32,000	32,000
United States Institute of Peace Total		—	32,000	32,000
Department of Health and Human Services:				
Department of Health and Human Services	93.000	—	283,309	283,309
Occupational Safety and Health Research Projects	93.262	—	31,674	31,674
Cancer Cause and Prevention Research	93.393	—	12,717	12,717
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	—	303,667	303,667
Developmental Disabilities Basic Support and Advocacy Grants	93.630	—	205,452	205,452
Child Welfare Services Training Grants	93.648	—	89,804	89,804
Foster Care – Title IV-E	93.658	—	1,204,108	1,204,108
Social Services Block Grant	93.667	—	35,030	35,030
Child Abuse and Neglect State Grants	93.669	—	3,289	3,289

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Cell Biology and Biophysics Research	93.821	\$ 51,392	—	51,392
Digestive Diseases and Nutrition Research	93.848	35,318	—	35,318
Vision Research	93.867	42,775	—	42,775
Minority Access to Research Careers	93.880	38,649	—	38,649
Department of Health and Human Services Total		168,134	2,169,050	2,337,184
Corporation for National and Community Service:				
AmeriCorps	94.006	18,807	—	18,807
Volunteers in Service to America	94.013	13,264	—	13,264
Corporation for National and Community Service Total		32,071	—	32,071
Social Security Administration:				
Social Security Agency	96.000	1,073,612	—	1,073,612
Social Security Administration total		1,073,612	—	1,073,612
United States Agency for International Development:				
United States Agency for International Development	98.000	197,219	48,404	245,623
USAID Foreign Assistance Programs Overseas	98.001	—	1,261	1,261
United States Agency for International Development Total		197,219	49,665	246,884
Total Other Federal Financial Assistance		26,636,004	8,202,065	34,838,069
Grand Total		\$ 503,339,164	60,749,674	564,088,838

See accompanying notes to schedule of expenditures of federal awards

CORNELL UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

(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, 2006 totaled \$114,028,485 including \$70,077,713 for the Ithaca campus and \$43,950,772 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, 2006

Weill Medical College

F&A cost rates for the WMC have been finalized through fiscal year 2007 as predetermined rates pursuant to the Department of Health and Human Services (DHHS) rate agreement dated June 7, 2006. Provisional rates have been established for fiscal year 2008 and beyond.

(3) Student Loan Programs

The University had the following loan balances outstanding at June 30, 2006. 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	\$	41,986,114
Health Professions Student Loan Program, including Primary Care Loans and Loans for Disadvantaged Students	93.342		<u>3,682,155</u>
		\$	<u><u>45,668,269</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, 2006.

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, 2006:

Federal Direct Loan Program (FDLP):	
Federal Subsidized	\$ 31,706,956
Federal Unsubsidized	<u>20,113,588</u>
Total FDLP	<u>\$ 51,820,544</u>
Federal Family Education Loan Program	\$ 15,137,632

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, 2006.

(4) Pass-Through Awards and Subrecipients

The University receives pass-through awards from 533 non-federal 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 565 subcontracts of its federal funds, which have been issued to subrecipients. Due to the large number of programs and sponsors, it is not practical to disclose the amount of payments to subrecipients.



KPMG LLP
265 Clinton Square
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, 2006, and have issued our report thereon dated September 28, 2006. 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 28, 2006.

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 28, 2006
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, 2006. 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, 2006.

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.

Our consideration of the internal control over compliance 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 15, 2007
Rochester, New York

CORNELL UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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>
10.500	Cooperative Extension
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

CORNELL UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

None Reported

III. Findings and Questioned Costs Relating to Federal Awards:

None Reported