



Cornell University



CONTENTS

A Message from the President	1	Cornell Cooperative Extension	14
Major Themes of the Year	3	Cornell in New York City	15
Academic Priorities	5	Weill Cornell Medical College	16
Research	7	International	19
Student Life	9	Government Relations	21
Land Grant	11	Human Resources	22
Cornell's Impact as a Major New York State Enterprise	12	Cornell University 2005-2006 Financial Report	25
Outreach	13		

CORNELL UNIVERSITY HIGHLIGHTS

	2005-06	2004-05	2003-04
Fall enrollment (excluding in absentia)			
Undergraduate	13,515	13,625	13,655
Graduate	4,637	4,633	4,656
Professional	2,046	1,978*	1,981
Total fall enrollment	20,198	20,236	20,292
Degrees granted			
Baccalaureate degrees	3,534	3,474	3,577
Master's degrees	1,596	1,552*	1,658
PhD degrees	515	493	448
Other doctoral degrees (JD, MD, DVM)	379	377*	376
Total degrees granted	6,024	5,896	6,059
Tuition rates			
Endowed Ithaca	\$31,300	\$30,000	\$28,630
Contract colleges			
Resident	\$17,200	\$15,870	\$14,500
Nonresident	\$30,200	\$28,400	\$25,800
Medical campus	\$32,320	\$31,380	\$30,170
Business	\$36,350	\$34,400	\$32,800
Law	\$37,750	\$35,280	\$32,970
Veterinary medicine	\$22,000	\$20,500	\$19,100
Volumes in library (in thousands)	7,709	7,587	7,505
Academic workforce			
Full-time employees			
Faculty	2,982	2,947	2,886
Nonfaculty	1,014	1,011	1,006
Part-time employees			
Faculty	218	221	158
Nonfaculty	205	211	198
Total academic workforce	4,419	4,390	4,248
Nonacademic workforce			
Full-time employees	9,032	8,915	8,653
Part-time employees	814	768	776
Total nonacademic workforce	9,846	9,683	9,429
Selected financial capital—net assets			
Market value of total university endowment (in millions)	\$4,385.2	\$3,859.6	\$3,314.2
Unit value of long-term investment pool	\$55.42	\$50.11	\$46.51
Gifts received, excluding pledges (in millions)	\$406.7	\$361.5	\$385.9
New York State appropriations through SUNY (in millions)	\$146.1	\$135.2	\$129.5
Medical physicians' organization fees (in millions)	\$388.9	\$363.0	\$341.3
Sponsored research volume (in millions)			
Direct expenditures	\$373.6	\$360.2	\$336.2
Indirect-cost recovery	\$119.2	\$113.8	\$109.0
Selected physical capital items (in millions)			
Additions to land, buildings, and equipment	\$463.4	\$422.0	\$408.4
Cost of land, buildings, and equipment	\$3,476.3	\$3,158.6	\$2,910.7
Outstanding bonds, mortgages, and notes payable	\$756.4	\$630.8	\$606.0

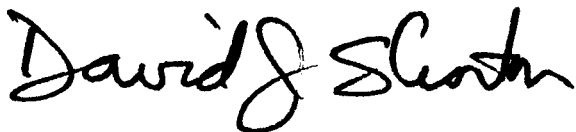
* numbers adjusted/corrected after publication

A Message from the President

Friends and fellow Cornellians,

The year that ended June 30, 2006, was one of transformation for Cornell University. Because of the enormous effort of the university's faculty, staff, students, and leadership, 2005-06 will be remembered for its successes.

The next pages offer the highlights of what has happened at Cornell during this very busy year in which our faculty accomplished much and earned prestigious awards; the donations of our alumni and friends reached a new and historic high; our students distinguished themselves in many ways, ranging from a school record-setting nine Ivy championships to making a real difference on the ground in the wake of Hurricane Katrina; and Cornell's workplace and staff have been the subject of repeated national coverage. The successes of this great institution are numerous and represent the full range of the Cornell experience.



David J. Skorton

President

Cornell University



Major Themes of the Year

David Skorton named president • Cornell welcomes student refugees from Hurricane Katrina • Hunter Rawlings signs education agreement in China • Rawlings addresses intelligent design head-on • students take outreach to developing world • faculty take lead on strategic planning initiatives and on sustainability • faculty members win national recognition

The year's major story was the announcement of David J. Skorton as Cornell's 12th president. "I'm so proud and very, very humbled to have the chance to be a part of the leadership of this great jewel of international higher education," said Skorton in opening remarks at a press conference January 21, 2006, in the Beck Center at Cornell. "American higher education is a close-knit community of people all doing the same thing: education and discovery. We here at Cornell do more of it and do it better than almost anyplace else."

Another major event in the university's life occurred in September 2005 when, in response to the devastation from Hurricane Katrina, the university invited students from the stricken New Orleans area to enroll at Cornell for a semester. A total of 204 students from Tulane, Xavier, and the University of New Orleans made their way to the campus, and Cornell president Hunter Rawlings issued a new leave policy for faculty and staff involved in Katrina relief efforts.

Those efforts included veterinary students and faculty going to New Orleans to aid in animal rescue. The College of Veterinary Medicine also sent supplies to Louisiana State University's School of Veterinary Medicine in Baton Rouge, which was overwhelmed by Katrina flooding. And Cornell planning, design, and policy students worked to rebuild New Orleans homes—helping rescue them

not only from the ravages of Katrina but also from developers seeking to alter the character of the city's predominantly black neighborhoods.

In his year as interim president, Rawlings accomplished much, most notably, perhaps, his visit to Beijing in November 2005, where he signed an official partnership agreement with Peking University to formalize Cornell's China and Asia-Pacific Studies major. He delivered a keynote address at the 2005 Beijing Forum and participated in an engineering workshop with Tsinghua University.

Rawlings also signed a three-year agreement with Indian Prime Minister Manmohan Singh on July 20, 2005, in Washington, D.C., that will bring visiting faculty and disseminate their lectures via EduSat.

In his State of the University address at the university's annual Trustee-Council weekend, Rawlings confronted the issue of intelligent design, which, he said, is "not valid as a science" and is a "religious belief masquerading as a secular idea." He called on the Cornell community to help the public sort through the complex and cultural issues of the controversy, both inside and outside the classroom and university.

The Bill and Melinda Gates Foundation awarded \$25 million to Cornell in January 2006 to support the construction of a new campus building, William H. Gates Hall. The building will be the centerpiece of a planned information campus that will bring together the several units of the Faculty of Computing and Information Science. The new



LEFT: Cornell's New Student Reading Project was the brainchild of Provost Biddy Martin, who saw the initiative as a way to encourage intellectual as well as social rapport among incoming students. RIGHT: The 2005 book for the New Student Reading Project was Chinua Achebe's *Things Fall Apart*. The project brought students, faculty, and alumni together, and the author came to campus to give a reading and meet the student winners of the project's first essay contest.

building will house the Department of Computer Science and elements of the Information Science Program.

As the academic year began, students and faculty gathered to discuss Chinua Achebe's book *Things Fall Apart*, the subject of Cornell's New Student Reading Project, which was initiated by Provost Biddy Martin in 2001. For the first time upperclass students could plunge headlong into the works of some of the university's most acclaimed writers—among them Kurt Vonnegut Jr., Toni Morrison, Thomas Pynchon, Richard Fariña, Alison Lurie, and Vladimir Nabokov—in the new English Department course The Great American Cornell Novel. And collaboration between the Ithaca campus and Weill Cornell Medical College accelerated. During the year, seven students from the Weill Cornell Medical College in Doha, Qatar, spent eight weeks conducting research on the Ithaca campus.

It was a banner year for student outreach. A small group of Cornell engineering students visited Honduras to find a way to bring clean water to a small rural village. Engineers for a Sustainable World, a nonprofit organization based at Cornell, sponsored students who traveled to work on engineering projects in developing countries, including Cyprienne Crowley, who worked on solar ovens in Senegal, and Brett Gleitsmann, who worked in India.

Three groups of distinguished faculty members worked to develop action plans for Cornell to establish leadership in areas of critical social importance: Life in the Age of the Genome, Wisdom in the Age of Digital Information, and Sustainability in the Age of Development.

Sustainability was another critical issue recognized by the university's leadership, and its importance was symbolized by a student-built solar house that uses only the sun's energy—Cornell's entry in

the national 2005 Solar Decathlon in Washington, D.C. After a week of tense and intense judging in the solar-house design contest, the Cornell University team took second place.

Cornell also forged ahead with its environmental programs in sustainable development, with projects ranging from recycling to energy saving. Two biofuel projects coordinated by Cornell Cooperative Extension, with support from the Northeast SUN Grant Center for Excellence at Cornell University, began in New York City. And a pilot project got under way to convert Cornell farm services vehicles to biodiesel fuel.

Among faculty achievements, Jon Kleinberg, professor of computer science, received a Genius Award from the MacArthur Foundation; Harold Craighead, professor of applied and engineering physics, and research assistant Rob Ilic had their research featured in the 2006 edition of the *Guinness Book of World Records*; and astronomy professor Steve Squyres, scientific leader for the Mars rover mission, was star of the IMAX movie *Roving Mars* and also published a book with the same title. In addition, Bruce Ganem, the Franz and Elisabeth Roessler Professor of Chemistry and the J. Thomas Clark Professor of Entrepreneurship, won the American Chemical Society's Award for Creative Invention; agronomist Jane Mt. Pleasant was cited by *Smithsonian Magazine* as one of the "35 People Who Made a Difference in the World"; Dr. William A. Muller, professor of pathology and laboratory medicine at Weill Cornell, received \$2.1 million from the National Heart, Lung, and Blood Institute to further study the processes of inflammation and methods to control them; and W. Ronnie Coffman, professor and chair of plant breeding and genetics, was cited by the American Society of Agronomy for his outstanding contributions to agronomy through education, national and international service, and research.



LEFT: Cornell's West Campus landscape changes as construction continues on the West Campus housing initiative. Upon completion in 2009, the project will include five new residential houses, outdoor social and recreational areas, and a new Noyes Community and Recreation Center, now under construction. When completed, the center will be a gateway to West Campus, housing a gymnasium, fitness center, multipurpose room, and bouldering wall. RIGHT: Nimat Hafez Barazangi, a research fellow in Cornell's Feminist, Gender, and Sexuality Studies Program, who was involved in writing the Iraqi constitution, asserts in her book *Woman's Identity and the Qur'an: A New Reading* that Muslim women will realize their just role in society and their potential as autonomous spiritual and intellectual human beings only when they are involved in the interpretation of the Qur'an.



It also was a year of farewells. Retiring eminent historian Walter LaFeber gave his final lecture, and nearly 3,000 former students, friends, and colleagues filled the Beacon Theater in Manhattan to hear it. And Urie Bronfenbrenner, the Jacob Gould Schurman Professor Emeritus of Human Development and of Psychology, a co-founder of the national Head Start program and one of the world's leading scholars in developmental psychology, died at 88.

Academic Priorities

Cornell University is home to one of the best faculties in the world, and in 2005–06 many of our best departments and professional schools added 68 outstanding new faculty to their ranks. In the life sciences, the university attracted an outstanding director of its new Institute for Cell and Molecular Biology, Scott Emr, who is currently a professor of cellular and molecular medicine at the University of California–San Diego and an investigator with the Howard Hughes Medical Institute. In addition, the Division of Nutritional Sciences hired Zhenglong Gu (Stanford University); the College of Agriculture and Life Sciences hired Giles Hooker (Stanford University) and Scott Williamson (University of Kansas) in Biological Statistics and Computational Biology; and the Department of Biomedical Engineering hired Moonsoo Jin (Harvard Medical School). In Computer Science, Doug James (Carnegie Mellon University), Robert Kleinberg (MIT), and Rafael Pass (MIT) joined the faculty of this prestigious department, currently fifth in national rankings. Arts and Sciences hired 29 faculty in efforts to ensure continuity as more faculty approach retirement. The English Department hired Anne-Lise François (University of California–Berkeley), J. Robert Lennon (University of Montana),

Notable Rankings

- In 2005, Cornell ranked as the **14th-best university in the world**, up from 23rd in 2004, according to the second annual World University Rankings by the Times Higher Education Supplement published by *The Times of London*.
- *The Scientist* magazine listed Cornell in **10th place in its U.S. survey of the best places for life scientists to work in academia**.
- Cornell was named by *Foreign Policy* journal as the **10th-best school in the country for students interested in pursuing an international relations career in academia**.
- In the *Princeton Review* survey of colleges, both **parents and high school students ranked Cornell ninth in a list of U.S. "dream colleges."**
- In *Small Times*, a trade magazine devoted to nanotechnology, **Cornell ranked in the top 10 in eight out of nine categories, and in the top five in six categories, leading all universities overall.**
- Cornell was selected as one of the **100 best campuses for lesbian, gay, bisexual, and transgender students (LGBT)** and is featured as such in *The Advocate College Guide for LGBT Students*, released Aug. 1, 2006.
- Cornell was once again named one of the **"50 Best Colleges for African Americans"** by *Black Enterprise* magazine.
- **The Johnson School placed ninth in the "Beyond Grey Pinstripes" 2005 ranking**, which looks at how well 600 of the world's full-time MBA programs integrate social and environmental knowledge in their courses and culture. The school also received the Brillante Award from the National Society of Hispanic MBAs **for its efforts to recruit Hispanic American students to its MBA program**.
- *Working Mother* magazine named Cornell a **"2006 Working Mother 100 Best Company."**
- *U.S. News and World Report* placed Cornell at the top of its rankings for **best undergraduate engineering science/engineering physics program** for the second year in a row.
- **Cornell's advanced degree program in biological sciences rose significantly in rankings** by *U.S. News and World Report* in its "America's Best Graduate Schools 2007" annual report.
- Cornell's **interior design undergraduate and graduate programs were both ranked third in the nation** in an annual survey of design professionals conducted by *DesignIntelligence* magazine.



LEFT: Yevgeny Yevtushenko, the “graying lion” of Russian poetry, met with Arts and Sciences seniors Katya Isichenko, left, and Sasha Brodski for breakfast at Alice Cook House April 27. In the evening, he presented “Walk on the Ledge,” a recitation of his works organized by the Cornell Jewish-Russian Club and co-sponsored by Cornell Hillel and the Department of Russian. He was joined by three students who recited his poems in English and one who joined him in singing “Lara’s Theme” from the movie *Doctor Zhivago*, while a fifth accompanied him on the piano. RIGHT: Animal scientist Temple Grandin, a Frank H. T. Rhodes Class of ’56 Professor, spoke on campus about her autism and how it has contributed to her efforts for animal welfare.

Philip Lorenz (University of Wisconsin–Milwaukee), and Ernesto Quiñonez (CUNY), and Sociology hired Charlotte Hirsh (University of Washington) and Sarah Soule (University of Arizona), to name a few. Cornell is committed to conducting cutting-edge research across disciplines and has as its goal to have at least 30 top-ten ranked programs.

The university is committed to enhancing the racial, ethnic, and economic diversity of its student body while it seeks to increase the overall academic quality of its students. The university received a record 28,098 applications for undergraduate admissions for the 2006–07 academic year, a 15 percent increase over that of the previous year.

A total of 482 underrepresented minority (URM) students were among those who enrolled in the fall 2006 freshman class, a 10.6 percent increase. The colleges, working in concert with the central admissions office, made significant efforts to increase URM enrollment, focusing on successful approaches—such as the Diversity Hosting Weekend that is held each spring—to reach out to potential students. Cornell ranks relatively high among peer research universities in the enrollment of low-income undergraduates. During 2005–06, 14 percent of the university’s undergraduates received Pell Grant awards. (Pell Grants are awarded primarily to students whose families have incomes below \$40,000.)

To increase the number of women faculty in engineering and the sciences, Cornell will use a \$3.3 million grant from the National Science Foundation to focus on recruiting, retaining, and promoting more women in leadership positions. The grant also will create a new center called ACCEL (Advancing Cornell’s Commitment to Excellence and Lead-

ership), which will become a permanent part of the provost’s office. To correct the current imbalance, Cornell has set ambitious goals: to reach a level of 20 percent women faculty in each science and engineering department in the next five years, and to have more than 30 percent by 2015, Cornell’s sesquicentennial. At present, about half, or 27 of 51 science and engineering departments, fall below 20 percent, and some departments have no women faculty.

In a related but separate effort, Provost Biddy Martin chartered an Advisory Committee on Faculty Work Life in 2005 to examine the tenured and tenure-track faculty work life and working climate on the Ithaca campus, with a special emphasis on the experiences of women faculty. That committee surveyed the roughly 1,500 Ithaca campus faculty, of whom approximately two-thirds responded. The data from that survey are being compiled and analyzed, and recommendations from the committee are expected this fall.

Both the Ithaca and New York City campuses have enhanced the integration of arts and the humanities with science and business education. At the Weill Cornell Medical College, Debra Gillers, associate dean for academic affairs, has brought some of the most creative minds in the country to speak to students. Susan Sontag spoke about cancer; William Styron shared how depression turned his life upside down; playwright Larry Kramer tackled AIDS; and David Feldshuh, the artistic director of Cornell’s Schwartz Center, presented his Emmy Award-winning play *Miss Evers’ Boys*. These events exposed medical students to the lessons of empathy, understanding, and caring expressed through the humanities.

In Ithaca, the College of Arts and Sciences provides the foundational core of humanities instruction and research. That college, with approximately



LEFT: The College of Architecture, Art, and Planning, the only Ivy League architecture program to offer a professional degree to undergraduates, allowing them to work in their field immediately after graduation, is getting a new building designed by the firm of Pritzker Prize-winning architect Rem Koolhaas, who studied in the college under O. M. Ungers in the early 1970s. The \$34 million building will be integrated with the college's other notable structures, Sibley, Tjaden, and Rand Halls. Groundbreaking for Milstein Hall—named after New York City developer and philanthropist Paul Milstein, who gave the college a \$10 million gift toward a building—is set for early next year. RIGHT: Members of the nation's first black fraternity, founded at Cornell, join in song at the dedication of the Alpha Phi Alpha centennial memorial—unveiled during the daylong pilgrimage to Cornell that kicked off the fraternity's centennial celebration.

one-third of Cornell's faculty, provides almost half of all teaching, about 40 percent of which is in the humanities. Over one-third of all humanities teaching provides students from other colleges at Cornell with the opportunity to broaden their curriculum and enrich their intellectual life. Over the past year, faculty from the arts, humanities, social sciences, and sciences have been working to develop new education and research programs at the intersections of their disciplines. Task forces have focused specifically on digital arts and culture, sustainability and the values that foster and impede it, and the cultural drivers and effects of the new life sciences. These initiatives have shown once again how engaged Cornell's artists and humanists are in the life of the university, how stimulating and inventive their work and their ideas are, and how essential it is to highlight the quality of their thought.

The Ithaca campus has made noteworthy progress in its multi-year initiative to increase faculty salary levels vis-à-vis peer research universities. Cornell has been able to raise faculty salaries, which were 10 to 12 percent below peer group means five years ago, to those averages through an aggressive campaign of above-inflationary salary adjustments. Maintaining competitive faculty salaries is critical if Cornell is to hire and retain high-quality scholars.

Cornell continues to make significant investments in facilities and technologies to enable faculty to provide the very best instruction and engage in cutting-edge research. The new Life Sciences Technology Building that is under construction on Tower Road, the recently refurbished and renovated Bailey Hall, and the proposed addition of Milstein Hall (being designed by Pritzker Prize-winning architect Rem Koolhaas and his colleagues) all attest to this commitment.

The university also remains committed to its strategic goal of making Cornell the best research university for undergraduate education. Hands-on research opportunities for students abound in all disciplines. Among the many programs designed to foster such experiences is the Hunter R. Rawlings III Cornell Presidential Research Scholars program, which provides undergraduates demonstrating superior academic potential and intellectual curiosity with significant research support for a four-year period, including need-based financial aid, stipend support, and funding for research-related expenditures. The program was renamed in honor of Rawlings by the Board of Trustees in May, recognizing his efforts as interim president and in providing research opportunities for undergraduate students.

Research

Cornell is one of the largest recipients of funding from the National Science Foundation (NSF); we received a 4 percent increase this year. With support from NSF, Cornell is pioneering a new source of X-ray beams that will be 1,000 times better in brightness, coherence, and pulse duration than is currently available from conventional synchrotrons. Beams from the Energy Recovery Linac (ERL) will allow scientists to understand how enzymes and catalysts function; determine the structure, function, and transport of organelles and other components in cells; and analyze and design new nanoelectronic and structural materials. To further develop and capitalize on the capabilities of ERL, two of Cornell's major research organizations merged this year—the Laboratory of Elementary Particle Physics (LEPP) and the Cornell High Energy Synchrotron Source (CHESS) became the Cornell Laboratory for Accelerator-based Sciences and Education (CLASSE).

The Life Sciences Technology Building, the facility that will house Cornell's \$650 million investment in cross-disciplinary life sciences research, is nearing completion. In keeping with other signature designs by its renowned architect Richard Meier '56, the four-story, 250,000-square-foot facility will feature clear glass windows throughout to bring in as much natural light as possible, allowing passersby to see activities taking place within. Discoveries made by collaborating scientists in the biological, physical, social, and computational sciences along with engineers can lead to medical breakthroughs and other innovations to improve life quality for people around the world. Programs and research also will support and advance genomics, digital technology, and sustainability.





LEFT: John Fitzpatrick, director of Cornell's Laboratory of Ornithology, makes a presentation at Mallard Point Lodge in Brinkley, Ark., December 12, on the history of recent sightings and studies of the ivory-billed woodpecker. RIGHT: The Mars Exploration Rover *Opportunity*, 200 million miles from Earth, is perched on the rim of Mars' Victoria Crater—a view made possible by an imaging instrument on the Mars Reconnaissance Orbiter spacecraft. The half-mile-wide and 200-foot-deep Victoria Crater, when analyzed by the scientific equipment aboard *Opportunity*, will provide clues about the environment on Mars and how it has changed over time.

In the life sciences, too, researchers from different disciplines are coming together in what promises to become one of the top biomedical research institutes in the world. The newly established Institute of Cell and Molecular Biology gives faculty in physics, chemistry, applied engineering, and computational sciences a place to join with biologists in addressing fundamentally important questions about the functioning of cells, the building blocks of life. Eminent biologist Scott Emr—whose discoveries of how proteins get into and out of cells is so fundamental that they're found in college textbooks—will come to Cornell in February to head this cornerstone of the \$650 million New Life Sciences Initiative. One of Emr's first tasks will be to hire 11 new faculty members who will devote much of their time to creating imaging techniques that allow researchers to visualize events in cells; using combinations of mathematics and computer science to model biology; and investigating cellular structure at the atomic level where proteins and other components can be seen working as a whole system.

As Cornell scientists are intent on revealing the processes that support biological life here on earth, so, too, are they investigating how the planets in our solar system were born. A wealth of information on the dynamics of evolutionary processes has come through collaboration with NASA, the European Space Agency, and the Italian Space Agency in the Cassini-Huygens four-year mission to study Saturn's rings. An analysis of images gathered over time and beamed a billion miles back to earth shows the movement of lovely wave patterns as the ice chunks that make up the rings are pulled toward each other and collide and then are sheared apart

again by Saturn's tidal force. Cornell scientists also have discovered primordial, football field-sized moonlets, a ring arc that goes only 60 degrees around the planet, and another ring that may have formed just 20 years ago and is winding ever tighter.

On *Cassini's* way to Saturn it passed Mars, another planet at the forefront of NASA's, and Cornell astronomers', attention. Since the Mars rovers' arrival on the red planet in January 2004, *Spirit* and *Opportunity*, too, have sent back thousands of astonishingly beautiful images—among them, panoramic photographs of the Martian landscape and sky. Their productivity has lasted beyond everyone's wildest dreams—10 times their anticipated “life span” and they're still going.

These sturdy robots have found conclusive evidence that water once flowed on the planet's surface. They've analyzed thousands of soil samples, rocks, and rock formations; recorded the climate on opposite sides of Mars; and given scientists a wealth of information vital in preparation for future human exploration.

Student Life

Learning opportunities are everywhere at Cornell. Last year more than 50 distinguished visitors (among them former Yankees pitcher Jim Bouton, Israeli filmmaker David Ofek, Ben and Jerry's founder Jerry Greenfield, psychosexual therapist Dr. Ruth Westheimer, and former U.S. ambassador and special Middle East coordinator Dennis Ross) gave talks and then spent afternoons and evenings with upperclass students in their residences on West Campus. Some, including Bill Nye '77, host of the Emmy Award-winning television show *Bill Nye, The Science Guy*, slept in the Alice H. Cook and Carl L. Becker Houses, too, so students could start the

day with a good breakfast and a chance to find out why Nye thinks “global cooking” is a far more apt phrase than “global warming.”

As a Frank H. T. Rhodes Class of '56 Professor, Nye has spent portions of the past three years living in the houses. His successor, animal behaviorist Temple Grandin, kicked off her five-year term with a week at Becker House, eating meals and chatting informally with students in the Common Room. Grandin, who has autism and is one of the few people widely respected on both sides of the animal rights debate, stayed up to answer every last question.

Students in the houses also organize discussions on topics of their own interest. “The Riots in France: Is France on the Verge of an Ideological Revolution?” drew a standing-room-only crowd at Cook House in November.

On North Campus, freshmen discovered that intellectual inquiry and a congenial community can come together when they spend informal time with faculty scholars. One such scholar is Shawkat Toorawa, an associate professor of Arabic literature and Islamic studies who was awarded the coveted Andrew W. Mellon Foundation New Directions Fellowship for faculty members in the humanities and humanistic social sciences. Toorawa holds fortnightly dinners in the Robert Purcell Community Center. Last year he took students on an “Around the World in Eight Days” film/discussion tour of Africa as a further exploration of the continent they were introduced to in the Freshman Reading Project *Things Fall Apart*. The series, co-sponsored with staff from Campus Life, was awarded the James A. Perkins Prize, which honors activities that advance interracial harmony and understanding.

Three days after the flood waters washed over

New Orleans’ levees, President Hunter Rawlings opened Cornell’s doors to students whose educations were tragically brought to a halt by Hurricane Katrina. Our students opened their hearts to more than 200 Tulane, Xavier, and University of New Orleans students who spent the fall semester in Ithaca. Too, they reached out to their 700 classmates whose families had ridden out the storm.

As New Orleans faced the daunting task of recovery, Cornell students were there. The New Orleans Planning Initiative, led by Ken Reardon, an associate professor and chair of the Department of City and Regional Planning, brought more than 100 students, and their teachers, in seven courses together with ACORN, a New Orleans grassroots organization. Together they created comprehensive, high-quality plans that could save from the wrecking ball the 9th Ward—a poor neighborhood with great historical and cultural importance to the city. This year’s efforts were just the beginning of a decade-long commitment of courses and internships in which students can learn how to use their planning tools to “speak for justice.”

During spring break more than 30 of our students traveled to New Orleans as part of Katrina on the Ground, a national minority student effort to offer their labor, scholarship, and fresh ideas to the black communities of the city. On the way they chose to stop at Selma, Alabama, and walk for themselves in the footsteps of Dr. Martin Luther King Jr., who, on that very ground, led black and white Americans to stand firm in face of violence, hastening passage of the Voting Rights Act of 1965.

On the playing field, the graduating class of 2006 was the most successful class ever, winning nine titles this year, eight last year, and seven in each of the previous two. This past year was the most successful for Cornell in the history of the Ivy League. Cornell took the Ivy League title in volleyball,



LEFT: New York State's \$6 billion wine industry will advance ever more rapidly through discoveries made when scientists from the New York State Agricultural Experiment Station are joined by federally funded colleagues at the Agricultural Research Service to work in the new Grape Genetics Research Center being built in Geneva, New York. The Agricultural Research Service is the U.S. Department of Agriculture's chief scientific agency. RIGHT: Governor George Pataki came to campus to present funding for preliminary work on the proposed Energy Recovery Linac (ERL), which will help create the brightest source of x-rays in the world. Colden Kimber, 9, presents Pataki with an Energy Recovery Linac hat. Looking on, from left, are Professor Robert Richardson, vice provost for research; Charles Trautmann, executive director of the Ithaca Sciencenter; and Quinn Bissen, 9, Jake Karpovage, 10, and Drew Bissen, 7.

women's indoor and outdoor track, men's indoor and outdoor track, wrestling, men's and women's lacrosse, and lightweight rowing. Women's gymnastics won the Ivy Classic. Men's lightweight rowing also won a national title and finished a close second in the Henley Royal Regatta, held at Henley-on-Thames, England, since 1839.

Student athletes also take their studies seriously. This year we set a record for combined academic and athletic performance when we were awarded 11 First Team Academic All-District Selections—the most prestigious academic award in college athletics—ranking second only to Harvard in the Ivy League.

Our nonathletes distinguished themselves in national competition for scholarly recognition as well. This year 17 Cornellians were selected for Fulbright Scholarships; two were recognized as Barry S. Goldwater Scholars; three as Morris K. Udall Scholars; and three became Humanity in Action Fellows.

Land Grant

In 2006, for the first time in a decade, the state of New York passed a budget that represented a real improvement in funding for the land grant colleges. Funding for 2006–07 is forecast to increase by 8.1 percent, from \$143.3 to \$155.0 million.

This occurred in part because of the general financial health of the state as well as a recognition by the legislature that it must continue to invest in higher education if the State University of New York (SUNY) system is to maintain its excellence. The positive relationship President Hunter Rawlings established with John R. Ryan during Ryan's first year as SUNY chancellor

helped bring about an historic first: a separate Cornell University land grant budget line. This separate funding stream, accounting for approximately half of the monies coming to us through SUNY, is a critical recognition of the unique status of the land grant colleges within the largest comprehensive public higher education system in the country.

This separate budget line reaffirms Cornell's singular role as the land grant university of the state of New York and makes more visible its responsibilities to serve the economic, social, and environmental well-being of all New Yorkers. Since Cornell's founding in 1865 by two New York State senators (Andrew Dixon White and Ezra Cornell), all who taught and conducted research here have carried a duty to share the knowledge, know-how, and resources of the institution with the citizens of the state and indeed the world. Cornell faculty, including Liberty Hyde Bailey, consulted with agronomists in China as early as the turn of the 20th century. Without the federal land grant of almost one million scrip acres, Ezra Cornell would never have offered up \$500,000 and his farm for the radical prospect of offering higher education—in the practical arts as well as the classics—to the sons and daughters of farmers and workers, not only the children of the elite. From the beginning, faculty across the institution used their skills and research in behalf of agriculture and animal husbandry, at that time the bedrock of the state's prosperity.

As Cornell grew, dividing into many colleges, there came a time when the Colleges of Agriculture and Life Sciences and Human Ecology carried out much of the public mission through the county offices of Cornell Cooperative Extension. The School of Industrial and Labor Relations created its own extension service. The College of Veterinary Medicine, although it does not have an explicitly named extension service, performs many of the same pub-



LEFT: During a visit in March, Senator Hillary Clinton talked with Dean Donald Smith and faculty members at the College of Veterinary Medicine about the animal-human interface of disease, ways to prevent or mitigate a pandemic or other potential public health crisis, and Cornell's leading research and outreach in these areas. RIGHT: From left, New York State assemblyman Bill Magee (D-Nelson), state senator Michael Nozzolio (R-Fayette), College of Agriculture and Life Sciences dean Susan Henry, and the commissioner of the New York State Department of Agriculture and Markets, Nathan Rudgers, cut the ribbon formally dedicating the Cornell Agriculture and Food Technology Park in Geneva on November 16. The 72-acre research park, being marketed as the Technology Farm, opened with a federal agency and four start-up businesses as its first tenants.



lic functions through animal health diagnostics, equine drug testing, and services to the veterinary community in New York State. Today we are reaffirming a commitment to the philosophy upon which Cornell was founded: the Ivy League university and the land grant university as one institution committed to civic engagement.

Cornell's land grant mission and commitment to service come together in the Cornell Urban Scholars Program, which provides paid summer internships for students to work in public service organizations in New York City. Sponsored by the Department of City and Regional Planning and the Cornell Public Service Center, as well as other Cornell schools, colleges, and units, the program is dedicated to eliminating the fundamental causes of poverty. Summer internships give talented undergraduates experiences on the front lines that inspire them to pursue careers in public service.

Faculty from the land grant colleges as well as chemistry, physics, and engineering participate in the Cornell Center for Materials Research. Experts in fields such as polymer science have partnered with industry for more than 15 years providing the latest research findings and state-of-the-art technology to meet the business challenges of tomorrow.

Faculty in the life sciences, the physical sciences, and engineering work together at the Nanobiotechnology Center to create minute devices for use in better understanding life processes at the nano (or a billionth of a meter) scale. The center's extensive educational outreach program for teachers of and children in kindergarten through 12th grade includes ready-made hands-on science projects ranging from unmasking the mysteries of electrical circuits and digital thermometers to probing the workings of the immune system. "It's a Nano World," a traveling exhibition created in partner-

ship with the Sciencenter, Ithaca's hands-on science museum, has toured the country showing children (and grown-ups) that many things in the world are too small to be seen with the naked eye.

Cornell's Impact as a Major New York State Enterprise

In addition to being one of the nation's premier teaching and research universities, Cornell is a major contributor to the economic, social, and cultural vitality of its surrounding community and New York State. Cornell is one of the state's largest employers, a buyer of hundreds of millions of dollars in goods and services, a leader in statewide economic development, and a sponsor of both large and small capital construction projects. In a recently conducted independent study, the consulting firm Appleseed, Inc., found that Cornell University contributes both directly and indirectly over \$3 billion annually to the economy of New York State alone.

As a leading upstate New York employer, in fiscal year 2005 Cornell employed almost 18,000 non-student workers, of whom 98 percent live within New York State. Out of a \$1.04 billion payroll, \$962 million was paid to New York State residents. And for every 2.86 Cornell jobs, a new job was created within the state—or an additional 6,224 workers who generated an additional \$1 billion in economic activity through their household spending activities.

For fiscal year 2005, the university spent another \$1.1 billion on goods and services (including construction). Of this total, almost 55 percent was spent within New York State, generating an additional 78 cents in economic activity for every dollar



LEFT: Cornell's student-built, solar-powered house was transported to the National Mall in Washington to compete in the U.S. Department of Energy's international 2005 Solar Decathlon. RIGHT: During a visit to campus in February 2004, Bill Gates met with a panel of Cornell faculty, including professor of communication Geri Gay, which briefed him on the interdisciplinary program in computing and information science that was created to extend computing education across the entire campus. The Bill and Melinda Gates Foundation has since awarded \$25 million to Cornell to support construction of a building that will launch the university's planned information campus and serve as a focus for computing education and research.

of direct spending and creating another 3,498 jobs within the state.

Cornell is also a leading contributor to building New York's stock of human capital in several ways: by providing a wide range of educational opportunities for thousands of young New Yorkers; by attracting thousands of talented students to New York each year; and by helping thousands of working New Yorkers refresh their skills or acquire new ones. In fall 2004 almost 20,000 students were enrolled at Cornell, and about 39 percent of the undergraduates and half of all graduate and professional students were New York State residents. Of Cornell's 202,000 living alumni, more than 56,000 (28 percent) are New York residents today.

Cornell is New York's leading academic research center, spending \$561 million on research in 2005. Federal funding accounted for 69 percent of the research, most coming from the National Institutes of Health and the National Science Foundation. For every research dollar Cornell spent, almost 82 cents came from out of state, making Cornell one of the state's leading importers of research dollars.

As New York's land grant university, Cornell has a long history of disseminating practical knowledge to the community and helping families and individuals throughout New York State use that knowledge productively. Through Cornell Cooperative Extension, approximately 40,000 New Yorkers performed a total of 1.7 million hours of volunteer work related to its programs in 2005 alone. Its \$99 million budget provided for 1,440 jobs and generated an additional \$44 million in economic activity and another 789 jobs across the state.

With the aim of turning economically disadvantaged central New York into an economic powerhouse, the new Finger Lakes New Knowledge Fusion project is to fund cutting-edge scientific research, new technologies, start-up companies, and educa-

tion for a better workforce to lead the region to new ideas and new prosperity. To design innovative technologies for solving problems faced by food and agricultural producers, Cornell University biological science researchers at the New York State Agricultural Experiment Station (NYSAES) in Geneva will partner with microsystem scientists at the Infotonics Technology Center in Canandaigua, N.Y. Techniques to monitor conditions affecting the safety of food on its way from the field to the family table or sensors to measure the way fruit grows in the orchard or vineyard, for example, could become the basis for new business enterprises in the Finger Lakes. And Ontario County and the Cornell Agriculture and Food Technology Park in Geneva will lend business and financial expertise and facilities to help generate long-lasting economic development in the region.

The capabilities that Cornell brings to New York State's economy are a product of nearly 50 years' investment—both public and private, both intellectual and financial—in the institution. By sustaining and building on that investment, and by working in partnership with the state and the communities it serves, Cornell can ensure that its contributions to New York's economy will in the years ahead be even greater. In fiscal year 2005 for every public dollar the university received, Cornell's economic activity generated an incremental 68 cents in new tax revenues for the state and local governments.

Outreach

In addition to the outreach activities of established centers and programs, the office of the associate provost for outreach organizes special events in response to specific needs in the local community. One such event, held in March, channeled the knowledge and resources of faculty and staff from



LEFT: Martin Luther King III presents his address at the May 27 Senior Convocation in Schoellkopf Stadium. RIGHT: John Cleese, A. D. White Professor-at-Large, rehearses in Ithaca's State Theatre with the Cornell Chamber Orchestra April 13. Cleese, an actor and former "Monty Python" member, narrated a performance of Sergei Prokofiev's "Peter and the Wolf" with the orchestra on April 15.



across the university into professional development for those working in the public schools.

More than 1,200 educators from throughout central New York—including all teachers in grades K through 12, administrators, and staff (from nurses to security guards) of the Ithaca City School District—came to campus for a smorgasbord of 125 educational enhancement workshops. A staff member from the Office of Human Resources who is an expert in organizational development helped teachers and administrators learn to facilitate effective group discussions and foster collaboration. In another workshop, a young faculty member in the Department of Human Development who is the only social scientist in the country to receive a 2005 Presidential Early Career Award for Science and Engineering shared her research findings on the interaction between language acquisition and cognition. In a third, an emeritus faculty member—renowned as a master of the memoir—returned from a decade's retirement to share with high school English teachers how to use memory in writing.

Catalyzing community economic development has always been central to the land grant mission. Funding from the U.S. Department of Commerce provides the means for Cornell to become New York State's sole Economic Development Administration University Center. In November, planners and economic development specialists from the region came to campus for an Economic Development Summit sponsored by the Community and Rural Development Institute and the Cornell Center for Technology, Enterprise, and Commercialization. Speakers gave talks on best practices including: winning strategies for downtown revitalization; so-

cial infrastructure for economic development: the case of child care; and labor-business-community alliances for high road economic development.

Outreach isn't just the province of faculty and staff. Students, too, recognize that it's a privilege to share (and in the process develop some cross-cultural understanding). In a spirit of generosity, 40 musicians with the Cornell Wind Ensemble spent 10 days in January on a concert tour through the capital and the countryside of Costa Rica. They took with them donated instruments to give to high school students with whom—after some coaching and encouragement—they shared the stage.

Cornell Cooperative Extension

Every day, New Yorkers of all ages are better off thanks to Cornell Cooperative Extension's (CCE) 1,700 educators and staff. These skilled professionals apply the research knowledge of Cornell University and other land grant institutions throughout the country for the benefit of more than one million people in communities throughout the state. Take, for example, the families of more than 12,000 active duty, National Guard, and Army Reserve soldiers. CCE's 4-H Youth Development specialists implemented the highly regarded program Operation Military Kids to support their families, in addition to running the traditional 4-H clubs at each active duty station.

When natural disaster strikes the farm economy, CCE is there. Unprecedented rainfall and flooding in June and July adversely affected fruit, vegetable, and forage crops in 20 counties. Extension faculty and educators responded with research-based information on specialized crop and pest management strategies for flood-affected areas. In partnership with the New York Farm Bureau Foundation for Agricultural Education and Senator Hillary



LEFT: In countries like India, with large, disadvantaged populations, “you cannot create great wealth without making an effort to spread that wealth,” said corporate leader Ratan Tata during his Hatfield lecture on April 10. RIGHT: Professor Walter LaFeber delivered his last public lecture April 25 to an audience of nearly 3,000 Cornell alumni and friends at the Beacon Theater in New York City.

Rodham Clinton, CCE established an emergency forage web site to match forage availability in dryer parts of the state with forage needs in flood-affected areas.

Year in and year out, CCE staff are continuously on the lookout for invasive plant and animal species that threaten farms, forests, lakes, and streams. Recently, they detected the presence of a tiny insect, the Swede midge, which can destroy cabbage, broccoli, and related crops.

Early intervention and expertise in monitoring, networking, and grower education helped mitigate potentially devastating losses for farmers and gardeners alike.

Invasive aquatic plants, too, can severely alter lake ecosystems. This year CCE educators mobilized volunteers to monitor over 75 miles of shoreline in the Finger Lakes region. Volunteer monitors identified three species previously unknown in the area. With an early alert came timely intervention with control methods known to work.

CCE educators and extension faculty are equally vigilant when it comes to promoting the well-being of New Yorkers—from newborns to the most frail elderly. Over 17,000 adults, representing more than 30,000 family members, participated last year in nutrition education through the Expanded Food and Nutrition Education Program and the Food Stamp Program.

Startlingly, more than 143,000 New York children are in situations in which they do not have a parent who is able to give them the care they need. When problems such as divorce, death, mental illness, substance and physical abuse, and prison sentences result in children not having mothers and fathers who can provide a stable and secure home, tens of thousands of other kin—most often grand-

parents—step up to provide the needed care, and it is not always easy. In 15 counties, CCE educators are forming support groups and providing assistance to help meet the particular challenges that come when parenting for the second time around. Included in this work is educating local institutions that traditionally think of “families” as only children and their parents.

Cornell Cooperative Extension brings the university to the people, and the people to the university. CCE makes engaging education in earth science available to youth of all ages through collaborations with Cornell’s affiliates—the Paleontological Research Institution and its Museum of the Earth. And it helps youth find the path to a satisfying career. Last year the 4-H Youth Development Program Career Explorations Conference brought 400 young people to campus for three days of conversation with Cornell University faculty and academic staff about their chosen careers.

Cornell in New York City

Cornell and Cornellians are all over New York City. The Cornell University–New York City campus stretches from the southern tip of Manhattan up the island to Lenox Hill on the Upper East Side, site of the oldest and largest part of the CU-NYC campus: the Weill Cornell Medical College and Weill Cornell Graduate School of Medical Sciences. The newest addition to Cornell in NYC, opened in January, is a large studio at 50 West 17th Street where students, faculty, and alumni of the College of Architecture, Art, and Planning can gather to share ideas and build collaborations with the city’s practitioners. It also provides a base from which our students can partake of the vast array of offerings available in one of the world’s most diverse cities.

The city’s labor leaders and international schol-

ars packed the auditorium at the offices of the School of Industrial and Labor Relations on 34th Street last June when the ILR Union Leadership Program hosted the Iraqi Federation of Trade Unions. The executive officer of the IFTU and his Iraqi labor colleagues described the extraordinary circumstances under which they lived and worked during the regime of Saddam Hussein and made a first-person plea for labor solidarity.

Cornell Cooperative Extension serves children and adults living in all five of the city's boroughs. Some of these children have never had a chance to view their hometown from across the water. To broaden the horizons of all the city's young people, CCE has joined forces with the Hudson River Foundation, the City University of New York, and other area educational and waterfront organizations to create Harbor 360, a public education center located on 172-acre Governors Island, a half-mile from the tip of Manhattan.

When completed, the center will be a place for students, researchers, planners, policy makers, and visitors to learn about the harbor—its physical form, natural processes, biological diversity, and role in the city's history and economy. A kickoff event in April was designed to appeal to the city's teens. Explorer's Day included a two-day campout, a boat tour of the harbor, and lectures and workshops on the island's tree species and the aquatic ecology of the harbor; a maritime workshop that included knot tying and charting; and a scavenger hunt at Castle Williams.

One week later, the line snaked all the way around the block as nearly 3,000 former students, colleagues, and friends patiently waited to file into the venerable Beacon Theater on the Upper West Side to hear one of Cornell's most beloved teachers

(and famed historian) give his last public lecture. "A Half-Century of Friends, Foreign Policy, and Great Losers" received a standing ovation, as had so many others he delivered in the years since coming to Cornell in 1959. Although Walter LaFeber's prize-winning writings on foreign relations have been powerful and influential, the outpouring of affection on this night showed that the impact he had on undergraduate and graduate students as a teacher, advisor, and mentor is perhaps his greatest legacy.

To animal lovers everywhere, the zoos in Central Park, in the Bronx, and in three other locations in the city are among its finest treasures. In July, the College of Veterinary Medicine and the Wildlife Conservation Society launched dual residency programs in zoological medicine and wildlife pathology. Melding the depth of scholarship, pool of clinical talent, first-rate facilities, and unparalleled animal collections of both institutions will offer a level of training to the next generation of leaders in wildlife health unrivaled elsewhere in the world. The collaboration comes at a time when we recognize more starkly than ever before the truth that the health of all inhabitants of the planet are inextricably linked and demonstrates our commitment to the welfare of people, domestic animals, and wildlife alike.

Weill Cornell Medical College

From its campus on Manhattan's Upper East Side, Weill Cornell Medical College (WCMC) reaches across the globe to offer teaching, research, and patient care to people on all continents except Australia and Antarctica. WCMC is now affiliated with 10 international institutions, including the Bugando University College of Health Sciences and Bugando Medical Centre in Tanzania, the

In May 2005, the final beam was put in place at Weill Cornell's Ambulatory Care and Medical Education Building. Raising the 13-story, 330,000-square-foot, \$230 million medical complex heralds the future in patient care and medical education. It was designed by Polshek Partnership Architects and Ballinger—whose New York projects include the American Museum of Natural History's Rose Center for Earth and Space—with architectural features chosen to maximize healing and patient well-being. Innovative teaching facilities allow students to begin training in patient interactions early in their education. The 13th floor houses the Institute for Computational Biomedicine specializing in research technologies employing mathematical models, physics, and high-speed computing to better understand the structure and function of the human body, search for clues to its mysteries, and translate new discoveries into clinical therapies.



American Hospital of Paris, St. Luke's Medical Center in the Philippines, and the Nightingale Hospital in Turkey.

The first American medical school to offer its M.D. overseas, Weill Cornell established a branch in Doha, Qatar, five years ago. Now more than 50 faculty members prepare 150 students from 27 countries to become tomorrow's doctors and biomedical researchers. Young men and women come from as far as Canada, Tanzania, Russia, India, France, Bosnia, and Bangladesh to join those from the Gulf States to engage in a curriculum—replicating that of WCMC—that infuses rigorous biomedical training with a human touch.

In New York, students at WCMC also recognize that training in cultures other than their own can make them well-rounded doctors; by the time they reach their senior year almost 40 percent of the graduating class has studied abroad. Over the past several years, WCMC students have studied in more than 76 countries.

WCMC faculty and fellows, too, offer their time and skills to people in impoverished circumstances. In Port-au-Prince, Haiti, for example, they work closely with Dr. Jean Pape's MD '75 AIDS treatment and eradication program, which has cut the disease's seroprevalence by more than half. Through collaboration with his fellow faculty members at Weill Cornell, Pape has created GHESKIO (Groupe Haitien d'Etudes du Sarcome de Kaposi et des Infections Opportunistes), a center analogous to a U.S. teaching hospital that offers free antiretroviral therapy to more than 3,000 people in the Haitian capital and is expanding throughout the country.

In April, Dr. Antonio M. Gotto accepted the post of Stephen and Suzanne Weiss Dean and Provost of Medical Affairs of Cornell University for another five years. During Gotto's decade-long tenure, NIH

funding has more than doubled; research space has been expanded by 26 percent; and nearly 100 full-time faculty have been recruited. In addition, Weill Cornell has more than doubled its endowment to \$670 million, increased its operating budget from \$400 million to more than \$900 million, and nearly quadrupled the clinical revenue generated through its Physician Organization.

With close to four million Americans afflicted with Alzheimer's disease and no cure in sight, Weill Cornell researchers made news last year with the first study showing that a purified mixture of human antibodies called intravenous immunoglobulin (IVIg) stabilizes or improves cognitive function in patients when administered over a period of a year or more. IVIg, an antibody product made from the blood of thousands of healthy donors, is an especially attractive agent since it has an established safety record and has been FDA-approved for more than 30 years.

Weill Cornell turned the corner in the history of cancer research last year when researchers pinpointed key players in "pre-metastasis," cells and compounds that coalesce in tumor-specific niches before the arrival of cancer cells to create the "fertile ground" the cells need to spread and grow. They found that these pre-metastasis events are highly detectable and occur when cancer cells remain at microscopic levels in the bloodstream, leading to the possibility of spotting and treating metastatic cancer before it starts. In addition, they could be used to help classify patients based on their individual risk for metastatic disease.

In a study aimed at identifying potential anti-cancer targets, Weill Cornell scientists discovered a biochemical partnership between two novel compounds called cell-cycle inhibitors, which is crucial to the development of blood vessels that help tumors survive and thrive. It was the first study of



LEFT: At the inauguration of President David J. Skorton, Antonio Gotto, Jr., dean of the Weill Cornell Medical College, praised Skorton as a leader in the field of cardio-imaging and as director of a clinic for congenital heart disease while he was president of the University of Iowa. RIGHT: Weill Cornell Medical College-Qatar is housed in a building without peers, constructed to Cornell's specifications in Education City, a 350-acre development dedicated to education and research on the outskirts of Doha. The design, by renowned Japanese architect Arata Isozaki, is a bold combination of the contemporary and the traditional, with influences from Islamic art and the old buildings of the Arabian Gulf. Its beauty belies an energy-efficient double wall and a double-roof construction system that protects both occupants and sensitive scientific equipment from daytime temperatures that, in summer, rise well above 100 degrees Fahrenheit.

its kind to examine whether disturbing cell-cycle controls in tissues supporting tumor growth can affect tumor biology. When researchers transplanted tumors into mice genetically engineered to lack two of the inhibitors, those tumors failed to develop essential vasculature.

Each year more than 100,000 Americans lose a foot or leg because of peripheral vascular disease, a gradual loss of circulation in the lower extremities that's usually linked to chronic diabetes and atherosclerosis. Scientists have long hunted for the "missing link" in the process whereby blood-forming cells in the marrow head to the site of injury to rebuild and sustain the vasculature. In a study completed last year, Weill Cornell scientists showed that a novel secreted protein called stromal-derived factor 1 (SF-1) does just that.

To develop a stem cell-based regenerative therapy to replace tissue damaged by heart attack, scientists have been looking for stem cells that can co-differentiate simultaneously into both muscle and blood vessel cells. Last year researchers at Weill Cornell identified a human stem cell bearing a surface antigen called CD133—abundant in the fetal liver—that is unusually adept at doing so. It's a major first that may lead to new sources of expendable CD133 stem cells within umbilical cord blood or adult bone marrow, livers, or other organs.

The Tri-Institutional Stem Cell Initiative, founded a year ago by a \$50 million gift from the Starr Foundation, has been approved for more than \$6.7 million (over the next two years) to conduct 17 research projects that range from studies of basic biology to those that lay the groundwork for therapeutic approaches. The institute brings Weill Cornell scientists together with those of two other leading biomedical research institutions—Memorial Sloan-Kettering Cancer Center and Rockefeller University.

International

Cornell's new undergraduate major in China and Asia-Pacific Studies (CAPS) was formally inaugurated by President Hunter Rawlings and Peking University (PKU) president Xu Zhihong at meetings in Beijing in November. This distinctive program immerses undergraduates in an intensive study of China's history, politics, society, and foreign relations. It features a rigorous Mandarin language component, a semester in Washington, D.C., at the Cornell in Washington Program, and in the senior year, one semester at Peking University and the second in a capstone foreign relations seminar on the Ithaca campus. In both Beijing and Washington, D.C., students receive on-the-job training via externships in government agencies, businesses, newspapers, or nongovernmental organizations. Last fall, the first CAPS course, *China Encounters the World*, was offered by Chen Jian, the Michael J. Zak Professor of History for U.S.-China Relations.

Lakhdar Brahimi, former special advisor to the Secretary General of the United Nations and Algeria's former minister of foreign affairs, visited Cornell as this year's Bartels World Affairs Fellow. He spoke on the topic "Iraq: The Present Crisis and Its Implications for Stability in the Middle East." Brahimi then spent two full days with faculty and students. In classes, seminars, and informal gatherings, he discussed the role of the UN in peacekeeping, conflict prevention, management, and resolution, as well as his own personal experience in international public service.

In January, 40 students and 14 faculty and staff members teamed up with 22 Indian students and three faculty members from three Indian universities to tour India on the 36th consecutive overseas

A music student from Matapalo, Costa Rica, waits her chance to play with the Cornell University Wind Ensemble in her hometown in January. Forty Cornell musicians spent nine days of their winter break on a concert and workshop tour in collaboration with Costa Rica's North American Culture Center.





LEFT: Cornell president Hunter Rawlings and Xu Zhihong, president of Peking University, sign the China and Asia-Pacific Studies agreement in the East Room of the Lin Hu Xuan Building on the Peking University campus in November. The new major focuses on language, culture, history, politics, and foreign policy, recognizing that the arts, humanities, and social sciences are important preparation for leaders of future U.S.-China relations. RIGHT: Former U.N. special adviser Lakhdar Brahimi gives the 2006 Henry E. and Nancy Horton Bartels World Affairs Fellowship Lecture. Brahimi, also Algeria's former minister of foreign affairs, was for more than 10 years the U.N.'s top envoy in such hot zones as Haiti, South Africa, Afghanistan, and Iraq.

field trip for the course Agriculture in the Developing Nations (IARD 602). For 19 days the group experienced the contrast in cultures and environments as they traveled by bus and train through four Indian states. They learned firsthand about the different ways cropping systems, animal science, food processing, biotechnology and pest management, and extension and rural development are practiced. Once home, the Indian and American students developed video presentations, carried live to each university.

A delegation of Cornell Law School faculty and leading authorities on the World Trade Organization met at Peking University last May for a major international conference designed to stimulate thinking about future relations between the United States and China in the context of the global trading system. The Cornell-Beida Conference on the WTO System examined developments in the "Doha Round" of multilateral negotiations and examined the impact of the ever-expanding number of regional and bilateral trade arrangements on the WTO system. The session featured presentations by such notables as Clark J. Randt, U.S. ambassador to China, and prominent trade experts from the Chinese Ministry of Commerce.

Professor Chris Barrett's economic development research takes him into the most poverty-stricken areas of rural Africa, the halls of Washington, D.C., and back to Cornell University, where he collaborates with biophysical and social scientists on innovative ways to improve the lives of some of the poorest people on Earth. As co-director of the African Food Security and Natural Resources Management program for the Cornell International Institute for Food, Agriculture, and Development, he helps plan research priorities for international agricultural research centers.

Government Relations

Cornell is one of the few educational institutions in the United States that remains committed to need-blind admissions and need-based financial aid. Nearly half of our students receive loans and grants from the federal government. As a result we have a more socioeconomically diverse student body than many of our peers. Nearly 15 percent of undergraduates receive Pell grants, which are awarded to students whose family income is less than \$40,000. Only at Berkeley and Columbia do a higher percentage of undergraduates receive Pell grants. (In addition, more than 5,000 of our undergraduates receive institutional grants—funded by Cornell through monies from tuition, endowment income, and gifts.)

With higher fees and loan rates and decreasing awards—owing to continued war and hurricane recovery as well as deficit reduction cutting deep into student financial aid—student debt is on the rise.

The Office of Government and Community Relations introduces students to the art of political advocacy by taking them to Washington to meet with their home state legislators. It also coordinates the efforts of alumni and members of the Board of Trustees in urging their elected representatives to continue to provide the aid that makes a Cornell education accessible to young men and women regardless of their economic status.

Members of the newly formed Trustee Committee on Government Relations also lobbied in Washington this year in behalf of the Energy Recovery Linac (ERL), whose x-ray beams can illuminate the inner workings of materials from viruses to fuel in-

jection, and in Albany for funds to support a new building for the Animal Health Diagnostic Center, the only facility in the state to provide research support for animal and human health threats such as avian flu, chronic wasting disease, and West Nile virus.

Cornell's partnership with the federal government is well on the way toward building a new 59,000-square-foot U.S. Department of Agriculture Grape Genetics Research Center at the New York State Agricultural Experiment Station in Geneva. Discoveries made by the federally funded scientists who use the National Clonal Repository for cold-hardy grapes (which contains 1,275 different genotypes of *Vitis*) housed there are vital to both Cornell's New Life Sciences Initiative and New York's most rapidly growing agricultural sector—the wine and grape industry.

During a time of landmark growth on the Ithaca campus, we're working hard to establish firm leadership collaborations locally and in the central New York region. This year Cornell's Office of Community Relations held a series of forums seeking public comment on how to manage the increasing traffic on campus and through the surrounding neighborhoods. Results of these conversations will be included in a transportation-focused generic environmental impact statement. This document will then be used to guide Urban Strategies, Inc., the Toronto-based consulting firm chosen, this year, to carry out a comprehensive master plan. This master plan will guide the physical development of the Ithaca campus over the next decade, ensuring that it becomes a better place for our students, faculty, staff, and neighbors. A newly launched web page—listing open houses, workshops, and other ways everyone's ideas can be heard—is located at masterplan.cornell.edu.

In July 2005 more than 500 Cornell employees

in the Division of Alumni Affairs and Development and the Johnson Graduate School of Management moved their offices into the heart of downtown Ithaca. Seneca Place, a nine-story hotel-restaurant-office complex just a block from the Ithaca Commons, will help to strengthen the downtown central business district.

Cornell served as the catalyst for the project for the purpose of invigorating the downtown core and sustaining Ithaca as one of New York's finest small cities. Seneca Place represents a strong public-private partnership between the city of Ithaca, Cornell University, and developers. This annual payroll of more than \$20 million, when combined with hotel and meeting facility guests, will serve as a substantial pedestrian traffic generator for the downtown core, bringing an estimated 230 new visitors to downtown every day, in addition to employees. Economic impact includes new tax revenues of \$825,000 per year (sales, room, real estate) and new downtown sales revenues of \$4.7 million (food/beverage and retail annual sales).

Human Resources

Cornell has long championed diversity and inclusiveness in the workplace. Last September marked the fifth anniversary of the public formalizing of this commitment through the "Open Doors, Open Hearts, Open Minds" statement. This year, the American Association of Retired Persons cited Cornell as one of the top organizations for workers over age 50; *GI Jobs Publisher* gave us honorable mention for setting the pace in veteran hiring and reserve policies; and *Scientist Magazine* named us one of the best places for postdocs to work. Lynette Chappell-Williams, director of Workforce Diversity, Equity, and Life Quality, was named a 2005 HR Rising Star by *DiversityInc*.

The Scaffidos are among the first Cornell families to take advantage of the university's new family leave policy, which went into effect September 1, 2005, and provides up to 16 weeks of leave time for parents after a child is born or during and after the adoption process. Coupled with the university's adoption assistance program, which also took effect last year and offers employees up to \$5,000 in reimbursement for adoption-related expenses, the policy is designed in part to make the adoption process smoother and to give employees a chance to bond with their new child.





The Office of Human Resources held two first-ever roundtable events to promote dialogue on how we can continue to do better. The Cornell Women of Color Roundtable drew 150 academic and non-academic staff and faculty to share strategies for career advancement and ideas on how to make Cornell's environment more inclusive. The Community Diversity Roundtable brought 130 more people from campus and downtown into the dialogue.

To learn more about issues that staff face in balancing work and family responsibilities, Mary Opperman, vice president for human resources, and the Employee Assembly held six discussion sessions—"Chili Chats"—attended by more than 400 staff. The ideas shared in these conversations were posted online for those unable to attend.

Two important employee benefits were extended to additional members of the Cornell community this year. The Staff Parental Leave Policy provides nonacademic staff with time off to care for newborn, newly adopted, or foster-care children and for seriously ill family members. Newborn and adoptive parental leaves include half-pay provisions to assist expanding families. Same-sex partners are considered parents under this, and many other, family-related policies.

The Enhanced Child Care Grant Program was extended to staff and graduate students at Arcibo Observatory. This program recognizes the value of high-quality child care by helping subsidize the cost.

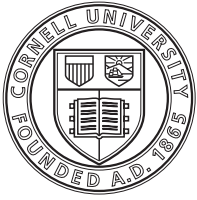
Our ongoing commitment to skill enhancement was evidenced by the popularity of two newly insti-

tuted programs in faculty leadership development and project management. More than 80 percent of Cornell supervisors have completed the Supervisors Development Certificate Program. The four full-day workshops cover identifying sexual harassment, resolving conflict through problem solving, complying with laws including the Americans with Disabilities Act, and effective mentoring. Online courses offered by SkillSoft and eCornell continue to attract staff; people took over 4,000 courses on subjects from accounting certification to strategies for single parents last year.

To address the accelerated pace of life at home and on the job, we are participating in the "Well-Being at Work" research project through the Positive Psychology Center at the University of Pennsylvania. Results of the project will help us discover ways the university can promote staff well-being as well as provide participants with confidential feedback on and insight into their own strengths and the quality of their work life.

Cornell employees are maturing: 24 percent of staff in leadership positions are over age 55. Typically, 78 percent of staff retire before age 65 (whereas 76 percent of faculty retire after age 65). This anticipated turnover increases the need for thoughtful retention and succession planning.

As part of its retention strategy, the Office of Human Resources continued to refine its staff market pay analysis and performed a pay equity analysis by gender and ethnicity. Results of an independently conducted analysis by Hewitt Associates showed the benefits Cornell offers faculty and staff to be robust.



Cornell University 2005-2006 Financial Report

Financial Review by the Vice President for Financial Affairs and University Controller	26
Management Responsibility for Financial Statements	31
Independent Auditors' Report	32
Notes to the Financial Statements	37
University Administration	51
Board of Trustees and Trustees At Large	52

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

ACCOUNTING AND AUDITING: STANDARDS AND GUIDELINES - A BUSY YEAR

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

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

Internal Controls

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

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

Although Cornell is exempt from requirements mandated by SOX, reviews by the Audit Office, comprehensive university policies and procedures, and voluntary "SOX certification"

all demonstrate a strong and ongoing commitment to best practices for sound and effective internal controls.

Valuation of Assets

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

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

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

outlined Cornell's procedures for valuation, and explained the requirements for auditors outlined in AU 9332.

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

Recording of Liabilities

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

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

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

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

GOVERNMENT REGULATIONS AND EMERGING ISSUES

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

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

CURRENT INITIATIVES

Financial Systems

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

In addition, a team of experts has been working throughout the year on the PeopleSoft/Oracle Student Services System. The modules include prospect, recruitment, admissions, stu-

dent records, academic advisement, financial aid, student financials, self service, and data delivery. The system is intended for phased implementation, beginning in fiscal year 2007 and ending in fiscal year 2008.

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

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

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

FINANCIAL YEAR IN REVIEW

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

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

Investments and Endowment

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

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

In fiscal year 2005-06, the return on investments, net of management and custody fees, was approximately 16.1 percent compared to 13.6 percent in the prior year. Based on the performance described above, it is not surprising that the market value per unit of the Long-Term Investment Pool (LTIP) experienced significant growth. At June 30, 2006, the value was \$55.42 compared to the prior year of \$50.11, or a 10.6 percent increase compared to 7.7 percent in the prior year. The table on the following pages shows the value of the LTIP over the last 10 years. Growth over that period, from \$36.71

endowment reported in the financial statements differs from that reported to NACUBO for its longitudinal survey, primarily because the latter report does not include pledges.

Receivables

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

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

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

to \$55.42 per share, represents an annual compound rate of approximately 4.2 percent net of the distributions from the pool. The June 30, 2006 LTIP unit value of \$55.41 does not yet exceed the highest per-unit value of \$58.16 achieved in fiscal year 1999-00.

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

The value of the university's endowment is a critical component of its financial strength to meet long-term goals. Table 2 in Notes to the Financial Statements shows the value of Cornell's endowment based on generally accepted accounting principles. The total value of the endowment is \$4.4 billion at June 30, 2006 compared to \$3.9 billion in the prior year. The increase of \$525 million compares to a prior year increase of \$500 million. The endowment, as a percentage of total investments, is approximately 83 percent for both the current and prior year. It is important to note that the value of the

LONG-TERM INVESTMENT POOL

Source and applications (in millions)

Beginning market value
Gifts and other additions
Withdrawals
Realized and unrealized gains (losses)
Ending market value

Unit value at year end (in dollars) *

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

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

Capital Projects and Debt

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

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

increased by \$213 million, from \$1.9 billion to \$2.1 billion, or 11.4 percent compared to 8.3 percent in the prior year. This growth is represented by many projects, but the major project capitalized in the current year for approximately

\$31 million was the second house in the West Campus Residential Initiative (House Project 2). The largest component in the overall growth in property, plant and equipment is construction in progress, which represents projects that will be capitalized in subsequent years. The value at the beginning of the year was \$273 million, and at the end of the year, \$435 million. Construction in progress reflects Cornell's ongoing plans for major expenditures to build and renovate property, plant, and equipment.

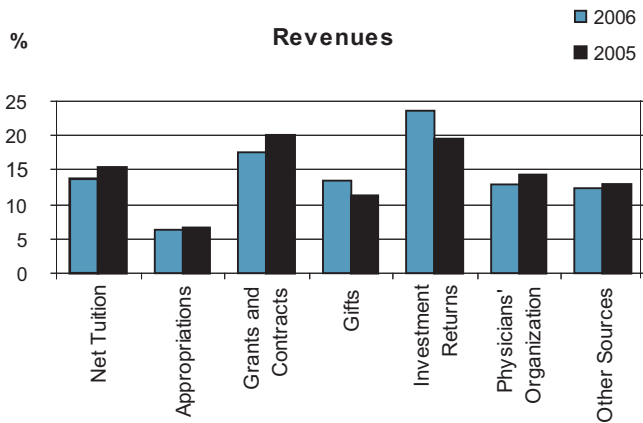
Building construction must be funded when it takes place; Cornell cannot defer payment to contractors and others. Cornell is funding a portion of this building growth with debt, which also grew in fiscal year 2005-06 by \$126 million, or 19 percent, compared to last year's increase of \$25 million, or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

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

Revenue and Expenses

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

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



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

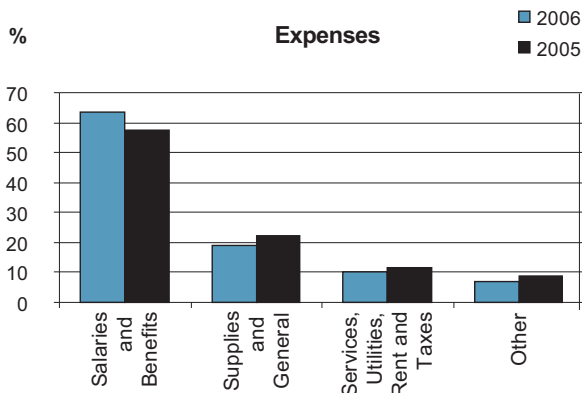


Table 11 has been added to the Notes to the Financial Statements to reflect future minimum-lease payments for Cornell's operating leases primarily related to real property. Table 12 shows expenses by functional category, which enables readers to review, in particular, those categories related to charitable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

Cash Flows

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

Summary

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

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

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

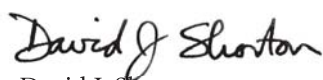
The management of Cornell University is responsible for the preparation, integrity and fair presentation of the financial statements that have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management. The University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

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

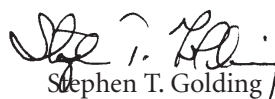
The University maintains a system of internal controls over financial reporting that is designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment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

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

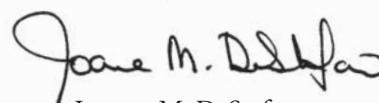
The Trustees of Cornell University through its Audit Committee, comprised of trustees not employed by the University, are responsible for engaging independent accountants and meeting with management, internal auditors, and the independent accountants to ensure that all are carrying out their responsibilities.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



David J. Skorton
President
Cornell University



Stephen T. Golding
Executive Vice President for
Finance and Administration



Joanne M. DeStefano
Vice President for Financial
Affairs and Controller

Independent Auditors' Report

The Board of Trustees
of Cornell University:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

KPMG LLP

Rochester, New York
September 28, 2006

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

	General Operations	Physical Capital	Financial Capital	2006 Total	2005 Total
Assets					
1 Cash and cash equivalents (note 2)	\$ 10,993		\$ 12,096	\$ 23,089	\$ 54,543
2 Collateral for securities loaned (note 2B)			232,455	232,455	197,090
3 Investments (notes 2 & 4)	493,159	\$ 206,988	4,560,302	5,260,449	4,589,949
4 Accounts receivable, net (note 3)					
5 Government	43,709			43,709	52,521
6 Patient	53,004			53,004	55,705
7 Contributions	231,067	40,596	63,962	335,625	311,949
8 Other	107,030	24	5,358	112,412	110,227
9 Inventories and deferred charges	54,149	8,578		62,727	46,212
10 Student loans receivable (note 3C)	45,059		18,648	63,707	65,526
11 Land, buildings, and equipment, net (note 5)		2,085,076		2,085,076	1,872,241
12 Funds held in trust by others (note 1D)			111,752	111,752	93,868
13 Total assets	<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	2,728,767	143,433	1,512,961	4,385,161	3,859,610
5 Funds subject to living trust agreements		52,495	40,123	92,618	82,567
6 Student loan funds			34,520	34,520	32,084
7 Total	<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 fundraising activities amounted to approximately \$34,201,000 and \$31,023,000 for fiscal years 2005-06 and 2004-05, respectively.

TABLE 5. CONTRIBUTIONS RECEIVABLE (IN THOUSANDS)

	2006	2005
Contributions expected to be realized		
1 In one year or less	\$ 161,661	\$ 132,918
2 Between one year and five years	227,282	191,376
3 More than five years	60,172	73,962
4 Gross contributions receivable	<u>449,115</u>	<u>398,256</u>
5 Discount (5.00% - 7.00%)	(95,826)	(69,889)
6 Allowance	(17,664)	(16,418)
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	\$ 57,800	\$ 58,300	1.71 to 3.80*	2025
4		73,475	5.125	2006
5	59,960	61,535	2.99	2029
6	78,615	80,385	4.63	2030
7	92,100	92,100	3.51	2033
8	248,570		4.00 to 5.00	2035
9	11,760	13,010	11.11	2012
10	19,205	89,580	2.38 to 3.65*	2028
11	37,791	50,567	3.09 to 5.24*	
12	Industrial Development Agency			
13	5,290	6,200	4.95 to 5.25	2011
14	42,780	42,845	4.52	2030
15	15,390	15,390	4.33	2015
16	5,635	5,915	5.75 to 6.50	2019
17	2,875	3,000	zero	2029
18	Capitalized leases			
19	11,836	12,334	various	2020
20	3,152	3,334	various	2007-2028
21	<u>692,759</u>	<u>607,970</u>		
General Operations				
22		1,897	6.75 to 6.80	2006
23	1,155	1,799	5.45 to 5.50	2007
24	8,150	9,112	5.70 to 6.15	2011
25	54,400	10,000	4.25 to 6.00	2007
26	<u>63,705</u>	<u>22,808</u>		
27	<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				
15 Unrecognized net actuarial loss/(gain) from past experience different from assumed	6,539	5,333	11,872	19,091
16 Net amount recognized - prepaid/(accrued) benefit cost	\$ 17,084	\$ (8,087)	\$ 8,997	\$ 11,629
Components of net periodic benefit cost				
17 Service cost (benefits earned during the period)		\$ 3,450	\$ 3,450	\$ 2,655
18 Interest cost	\$ 1,031	2,512	3,543	3,666
19 Expected return on plan assets	(2,279)	(2,462)	(4,741)	(4,590)
20 Amortization of prior service cost				
21 Amortization of net (gain)/loss	664	616	1,280	685
22 Net periodic benefit cost/(income)	\$ (584)	\$ 4,116	\$ 3,532	\$ 2,416

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

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

Estimated future employer contributions (in thousands)

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

Estimated future benefit payments from the trust (in thousands)

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

	2006		2005	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
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>

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