Cornell University 2006-2007 Financial Report

We are pleased to report a very strong financial year in 2007, which continues to support the University's ambitious strategic goals. The recently ended fiscal year saw an increase in the University's net assets in excess of one billion dollars. Investment returns of 25.9 percent contributed significantly to this year's performance by boosting total assets to a level in excess of $10 billion for the first time. Revenues from gifts and pledges continue to support capital campaign goals, and the University maintains its strategic management of debt through the use of commercial paper and tax-exempt bonds while sustaining a strong credit rating. As we look ahead, we expect the continued support of our faculty, staff, students, trustees, alumni, and others, allowing us to continue to build on our fiscal successes and provide for the future generations of Cornellians.

FINANCIAL STATEMENT FORMAT, NEW STANDARDS AND CURRENT INITIATIVES: ANOTHER BUSY YEAR

Financial Statement Format

The University's consolidated financial statements are used by many constituents: sponsors, donors, parents, students, employees, government agencies, rating agencies, and others. These users benefit from a format that is easy to understand. Toward that end, the University changed its financial statement format for fiscal year ended June 30, 2007 to facilitate comparisons over time and across organizations. In addition, the financial information for the prior fiscal year has been reclassified to conform to the current year presentation. In implementing the new format, which is detailed below, the University followed guidelines from the National Association of College and University Business Officers (NACUBO) and similar organizations.

The University no longer presents its consolidated financial statements using the disaggregation categories of general operations, physical capital, and financial capital. In addition to this change, which affects both the statement of financial position and the statement of activities, accounts receivable have been aggregated on the statement of financial position, and other minor changes have been made to this statement to better reflect liquidity and the nature of the underlying activities. The working capital line of credit is reclassified from bonds and notes payable to deferred revenue and other liabilities. Derivative instruments for managing interest rate risk are reclassified from accounts payable to prepaid expense if the fair market value adjustment at June 30 serves to decrease interest costs, or deferred revenue and other liabilities if the fair market value adjustment serves to increase interest costs.

The most significant change in presentation affects the consolidated statement of activities. This statement now presents operating activities separately from nonoperating activities. Broadly defined, operating activities include income and expenses that are (a) related to the missions of education, research, and public service, and (b) associated with activity substantially within the control of management. Operating income also includes investment return for support of current operations based on the University's payout policy established by the Board of Trustees' endowment spending rules. And, while there is no uniform definition of what constitutes "operations" for higher education, many colleges and universities report an "operating measure" as permitted by the Statement of Financial Accounting Standards 117 (SFAS 117), which is designed to reflect financial performance that is predictive of future results.

Additionally, the university has, in its consolidated statement of activities, combined certain categories in both the operating and nonoperating sections: government appropriations (whether federal or state) are reported as appropriations; interest, dividends, payout, gains, and losses (whether realized or unrealized) are reported as investment return. The investment return distributed as payout is reported in the operating section of the statement of activities; the investment return undistributed is reported in the nonoperating section. The components of income previously reported as other sources were analyzed and classified as either operating income (educational activities and other sales and services) or nonoperating income (other). Additionally, the University now reports payments from New York Presbyterian Hospital as revenues, not as a reduction of expenses. Compensation and benefits were combined into one line item, to reflect the overall costs associated with employment. Also combined were the three separate line items for federal, state, and private grants into grants, contracts and similar agreements. Both direct and indirect cost recoveries for sponsored projects are now reported to provide additional information important for readers.

Nonoperating activities include investment return net of amounts distributed to fund current operations; new gifts for endowments and/or physical plant (primarily buildings); and present-value adjustments to split-interest agreements.

The University has revised certain footnotes and tables to enhance clarity for the readers, consistent with the new financial statement format. In particular, the "Investments at Fair Value" table (see note 3-A) has been revised to disclose information in categories consistent with those often used in the investment community: domestic equity, foreign equity, absolute return, hedged equity, fixed income, private equity, and real estate.

NEW STANDARDS

Financial Standards Accounting Board

The Financial Standards Accounting Board (FASB) has undertaken a comprehensive project on accounting for postretirement benefits. In September 2006, as part of this project, FASB issued Statement of Financial Accounting Standards 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). The statement is effective for fiscal year 2007, and reflects FASB's concern that footnote disclosure does not provide sufficient information for employees and others about the over-funded or under-funded status of employee benefits. The statement requires recording the "funding status" in the financial statements. For fiscal year 2007, Cornell recorded a decrease in net assets for the under-funded liability of $77 million in the consolidated statement of activities. The amount represents the recognition of the liability in compliance with SFAS 158; the increase to the liability for SFAS 158 is recorded in deferred benefits on the statement of financial position. (See notes to consolidated financial statements 1-O and 5-C.)

Auditing Standards Board

The American Institute of Certified Public Accountants (AICPA), through its Auditing Standards Board (ASB), has continued to focus on internal controls and issued Statement of Auditing Standard 112, Communicating Internal Control Related Matters Identified in an Audit (SAS 112), effective for fiscal year 2007. SAS 112 introduces and defines critical terms related to the internal control environment the auditors must evaluate for financial reporting: "control deficiency," "significant deficiency," and "material weakness." In addition, the statement identifies which deficiencies must, by regulation, be communicated, and to whom.

To ensure consistency with the Statement of Auditing Standards, the Office of Management and Budget (OMB) announced a revision to Circular A-133 (Audits of States, Local Governments and Non-Profit Organizations). OMB updated internal control terminology in A-133 to ensure that OMB's terminology is consistent with SAS 112.

Government Regulations and Emerging Issues

Congress continues to focus on exempt organizations, particularly in the committee work of Senators Grassley and Baucus. There is an ongoing concern that the activities of exempt organizations are not sufficiently transparent to the public and regulatory authorities. In response to these concerns, both federal and state agencies are focusing attention on the activities of exempt organizations and vendors who serve them (such as financial institutions serving the student loan market).

Cornell continues to work closely with its peer institutions and professional organizations on issues that affect universities. The Internal Revenue Service (IRS), in response to these efforts, issued a favorable ruling, Rev. Proc 2007-47, addressing federally sponsored research and its impact on private use of facilities financed with tax-exempt bonds. The issue of private use is extremely important, because it can affect the tax exemption of the bonds. The 2007 ruling provides important and favorable clarification: the rights that inure to the federal government under the Bayh-Dole Act for federally sponsored research will generally not create private use.

> "Investment returns of 25.9 percent contributed significantly to this years's performance, by boosting total assets to a level in excess of $10 billion for the first time."

Cornell is working closely with its peers and professional organizations to identify and submit to the IRS their shared concerns about the proposed changes to the annual information return for exempt organizations (i.e., 990). Many of the proposed changes create significant additional administrative burden. Therefore, the goal of this collaboration is to create changes that are acceptable to the IRS and practicable for tax-exempt organizations.

CURRENT INITIATIVES

Ten-Year Financial Plan

Operating measures, reflected in Cornell's new presentation, are important not merely for a particular fiscal year, but are useful in developing projections of future financial results and their impact on cash flows and financial ratios, essential for sound strategic planning.

In fiscal year 2007, Cornell began a comprehensive project to envision and engineer the University's economic profile for the next ten years in an effort to ensure that the University maintains its financial strength while meeting its strategic goals. The preparation of detailed capital and operating budgets, as well as pro forma financial statements for a future ten-year period, should help management make the wisest financial and economic decisions. The ten-year projection, now reported in a format based on an operating measure similar to the consolidated statement of activities, will be reevaluated each year based on actual results and changes in the University's strategic plan.

Financial Systems

The PeopleSoft/Oracle Student Services System began its rolling implementation in fiscal year 2007, and all modules for student services are expected to be implemented by fall 2008. The application, when fully implemented, will provide the structure to manage student services as a whole, including prospect, applicant, admissions, financial aid, and student financials. In addition, the system will provide data delivery through a student data warehouse.

> "In fiscal year 2007, Cornell began a comprehensive financial project to envision and plan the University's economic profile for the next ten years."

Cornell continues to be a key partner in the Kuali Financial System (KFS) Open Source Project. KFS will replace Cornell's legacy mainframe financial system with an up-to-date application. Cornell's Ithaca and Medical College campuses became partners in a parallel effort, the Kuali Research Administration (KRA) Project, to begin planning for the implementation of a research administration system to support the ever-increasing interdisciplinary research between campuses.

FINANCIAL YEAR IN REVIEW

2007 was an extraordinary year; the balance sheet reflects a healthy net asset growth, enhancing the University's strong financial position. The University's net assets increased by $1.3 billion or approximately 19 percent, to over $7.8 billion, with an increase in every net asset restriction classification: unrestricted-22 percent; temporarily restricted-20 percent and permanently restricted-11 percent. These overall results derive from operating and nonoperating activities, with the most significant growth in nonoperating income.

Operating Income:

The University earned $31.4 million from its net operating activities for fiscal year ended June 30, 2007, demonstrating continued financial strength from mission-related activities. However, the 2007 income from operations is 56 percent lower than last year's operating income of $72 million. This decrease in net operating income from prior year is easily identified: operating expenses increased by 4.5 percent and operating income increased by only 2.7 percent. A full understanding of this decrease requires review of specific components of both operating income and expense.

Although overall contribution income increased by 32 percent for fiscal year ended June 30, 2007, the increase is exclusively in nonoperating income. Contributions for operations, in fact, decreased by $52 million from $271.1 million for fiscal year ended June 30, 2006, to $219.1 million for fiscal year ended June 30, 2007. A primary reason is this: in response to Cornell's strategic initiatives for the capital campaign, Cornell's donors have often restricted their gifts to buildings and/or permanent endowment. Gifts with these restrictions are now reported in the nonoperating section of the consolidated statement of activities.

Investment returns that are distributed for operations increased by 17 percent, from $248.3 million for fiscal year ended June 30, 2006, to $290.6 million for fiscal year ended June 30, 2007. The Board of Trustees authorized an increase in payout from the long-term investment pool (LTIP) from $2.30 per unit in fiscal year ended June, 30 2006, to $2.42 per unit for fiscal year ended June 30, 2007. The payout from the pooled balances income fund (PBIF) also increased in 2007. Although some members of Congress have suggested that not-for-profit institutions are spending too little of their investment assets for mission-related activities, this is not true for Cornell or many other research universities.

The revenues from Medical Physicians' Organization increased by $49.5 million, or 12.7 percent. This increase was created by many factors; most significantly an increase in patient visits resulting from both strategic recruitment of faculty and the opening of the Weill Greenberg Center for ambulatory care, a state-of-the-art facility, as well as enhanced operating practices.

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

Income from grants, contracts, and similar agreements declined by approximately 3 percent, or $15.5 million, caused almost exclusively by reductions in federal awards, a reality that affects not only Cornell, but also many other major research universities. Organizations that track trends in federal research expenditures, such as The American Association for the Advancement of Science, note that, with considerable concern shared by the University, federal expenditures have been flat or declining for the past several years.

Cornell continues to manage its costs effectively, but increases in salaries, benefits, and depreciation create an unavoidable increase in operating expenses. And although the increase in salary and benefit costs this year was only 5 percent (not significantly higher than the annually adjusted Consumer Price Index in 2007), labor costs represent approximately 65 percent of the University's total costs and, therefore, even modest percentage increases create a significant impact on net operating income.

The increase in depreciation expense from $128.2 million for fiscal year ended June 30, 2006 to $147.6 million for fiscal year ended June 30, 2007 is due primarily to the ongoing expansion of Cornell's facilities. In fiscal year 2007, the University placed in service the following major projects: Weill Greenberg Center, West Campus Residence Initiative House #3, West Campus Noyes Community Building, Duffield Hall Fit Out, Bailey Hall, East Hill Office Building, and the Library Annex Storage Module.

Nonoperating Income:

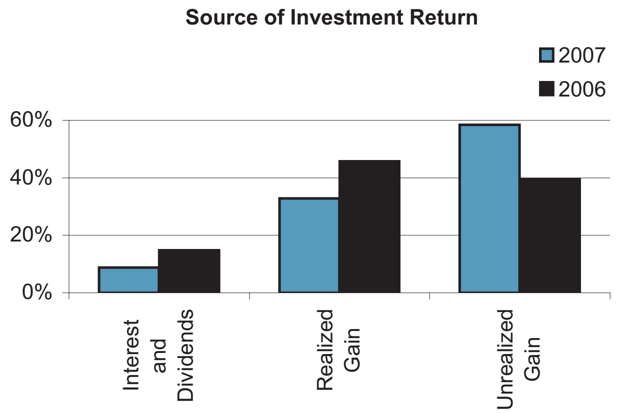
As mentioned earlier, donors continue to provide major support to the University, especially during the capital campaign, now in progress. Contributions for buildings and permanent endowment increased by 132 percent from $138.4 million for fiscal year ended June 30, 2006, to $321.4 million for fiscal year ended June 30, 2007. Many of these gifts are pledges for future payments and, therefore, the increase in contributions has a direct impact on the contributions receivable on the consolidated statement of financial position. Contributions receivable, net of allowances and discounts, increased by 48 percent from $335.6 million for fiscal year ended June 30, 2006 to $495.9 million for fiscal year ended June 30, 2007.

The nonoperating investment return increased by over 103 percent from $448.2 million to $911.5 million. The University's returns clearly outperformed the market. The Dow increased by 20 percent during fiscal year 2007; Cornell's overall investment returns were 25.9 percent. The per-unit value of LTIP shares at June 30, 2007 is $66.62 compared to $55.42 for fiscal year ended June 30, 2006. It is important to emphasize that the 2007 per-unit value now exceeds the previous, post-stock-split, all-time high of $58.16, achieved in 1999-2000.

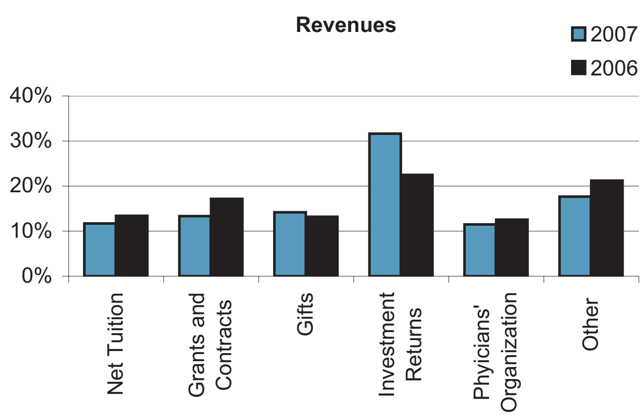
In total, operating and nonoperating investment income was $1.2 billion in 2007, compared to $696.6 million in 2006. The major increase is in unrealized gains, now 58 percent of total return compared to 39 percent in the prior year. In

1997–98	1998-99	1999-00	2000–01	2001–02	2002-03	2003-04	2004-05	2005-06	2006-07
$ 2,043.4	$ 2,427.6	$ 2,760.3	$ 3,288.0	$ 3,043.9	$ 2,750.4	$ 2,720.8	$ 3,070.2	$ 3,623.2	$ 4,180.4
98.9	147.8	146.4	135.4	132.5	124.3	88.9	234.8	202.0	128.7
(32.1)	(40.5)	(55.5)	(84.6)	(110.5)	(128.1)	(116.4)	(37.1)	(33.7)	(125.1)
317.4	225.4	436.8	(294.9)	(315.5)	(25.8)	376.9	355.3	388.9	1013.5
$ 2,427.6	$ 2,760.3	$ 3,288.0	$ 3,043.9	$ 2,750.4	$ 2,720.8	$ 3,070.2	$ 3,623.2	$ 4,180.4	$ 5,197.5
$ 47.65	$ 51.16	$ 58.16	$ 51.85	$ 44.95	$ 42.65	$ 46.51	$ 50.11	$ 55.42	$ 66.62

fact, unrealized gains alone of $702.3 million, at fiscal year ended June 30, 2007, exceed the total investment income for fiscal year ended June 30, 2006, which was $696.6 million.



Nonoperating contributions and investment returns are the primary reasons for the extraordinary performance in 2007. The markets often remind us, as they did shortly after fiscal year-end, that they can be volatile. As our Subsequent Event note 12 discloses, Cornell incurred a loss of approximately $20 million on a fund that liquidated in July due to sudden changes in market conditions.



Financial Position:

Many of the significant changes in the University's consolidated statement of financial position are directly related to operating and non operating income. Specifically, for fiscal year ended June 30, 2007, there is a 48 percent increase in contributions receivable, a 21 percent increase in investments, and a 13 percent increase in land, buildings, and equipment.

The decrease in deferred revenues and other liabilities of 22 percent, however, is not related to operating or nonoperating income, but primarily to a $23.9 million reduction in the line of credit. This reduction does not signify a shift in strategy about borrowing. The University, because of favorable interest rates, used commercial paper to meet cash flow needs as well as short-term funding for projects. The 14 percent increase in bonds and notes payable reflects the planned, increased use of commercial paper.

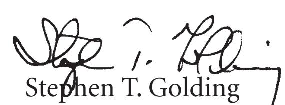
Deferred benefits increased 44 percent, based primarily on the SFAS 158 requirement to record an additional liability of $77.1 million for the unfunded, postretirement benefits. There were also increases in the annual costs for postretirement benefits, vacation accruals, and other benefits that had an impact on the increase in deferred benefits ($260.8 million at fiscal year ended June 30, 2006 compared to $374.6 million at fiscal year ended June 30, 2007).

Summary:

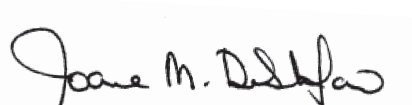
To support the University's key strategic priorities for academic excellence, access to and quality of undergraduate education, global outreach, etc., Cornell continues to align resources with priorities.

Cornell's financial performance in fiscal year ended June 30, 2007 has enhanced the resource base to support strategic initiatives. Net assets increased by 19 percent from $6.6 billion to $7.8 billion during this period, with the greatest percentage increase in unrestricted net assets of approximately 22 percent, from $4.4 billion to $5.3 billion.

To properly align resources and priorities, it is useful to identify resources likely to be under the control of management – generally defined as operating income and expenses. Nonoperating income is affected by external factors less likely to be in management's control. The new financial statement format, by reporting an operating measure, seeks, among other things, to provide better information useful in planning for an effective alignment of resources to priorities.



Stephen T. Golding
Executive Vice President for
Finance and Administration



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

MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Cornell University is responsible for the preparation, integrity and fair presentation of the consolidated 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 these consolidated financial statements.

The consolidated 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 consolidated 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 University Controller

Independent Auditors' Report

The Board of Trustees
of Cornell University:

We have audited the accompanying consolidated statement of financial position of Cornell University as of June 30, 2007, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2006 consolidated financial statements and, in our report dated September 28, 2006, we expressed an unqualified opinion on those consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cornell University as of June 30, 2007, 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.

As discussed in notes 1(O) and 5(C) to the consolidated financial statements, in 2007 the University adopted the provisions of Financial Accounting Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*.

KPMG LLP

Albany, New York
September 20, 2007

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2007 (in thousands)

(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2006)

		2007	2006
	Assets		
1	Cash and cash equivalents	$ 27,569	$ 23,089
2	Collateral for securities loaned	346,804	232,455
3	Accounts receivable, net (note 2-A)	247,965	209,125
4	Contributions receivable, net (note 2-B)	495,910	335,625
5	Inventories and prepaid expenses	75,176	62,727
6	Student loans receivable, net (note 2-C)	64,931	63,707
7	Investments (note 3)	6,369,225	5,260,449
8	Land, buildings, and equipment, net (note 4)	2,348,223	2,085,076
9	Funds held in trust by others	103,550	111,752
10	Total assets	$ 10,079,353	$ 8,384,005
	Liabilities		
11	Accounts payable and accrued expenses	$ 245,374	$ 208,066
12	Payable under securities loan agreements	346,804	232,455
13	Deferred revenue and other liabilities	120,210	154,417
14	Obligations under split interest agreements	125,131	103,585
15	Deferred benefits (note 5)	374,557	260,802
16	Funds held in trust for others (note 6)	184,830	93,404
17	Bonds and notes payable (note 7)	800,107	702,064
18	Government advances for student loans	43,875	43,857
19	Total liabilities	2,240,888	1,798,650
	Net assets (note 10)		
20	Unrestricted	5,303,889	4,351,561
21	Temporarily restricted	777,922	646,190
22	Permanently restricted	1,756,654	1,587,604
23	Total net assets	7,838,465	6,585,355
24	Total liabilities and net assets	$ 10,079,353	$ 8,384,005

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

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2006)

		Unrestricted	Temporarily Restricted
	Operating revenues		
1	Tuition and fees	$ 633,387	$ -
2	Scholarship allowance	(189,225)	-
3	Net tuition and fees	444,162	-
4	State and federal appropriations	173,360	-
5	Grants, contracts and similar agreements		
6	Direct	381,003	-
7	Indirect cost recoveries	119,837	-
8	Contributions	91,188	127,948
9	Investment return, distributed	216,355	74,300
10	Medical Physicians' Organization	438,355	-
11	Auxiliary enterprises	134,377	-
12	Educational activities and other sales and services	304,861	-
13	Net assets released from restrictions	130,116	(130,116)
14	Total operating revenues	2,433,614	72,132
	Operating expenses (note 9)		
15	Compensation and benefits	1,620,037	-
16	Purchased services	114,785	-
17	Supplies and general	440,481	-
18	Utilities, rents and taxes	120,853	-
19	Interest expense	30,509	-
20	Depreciation	147,639	-
21	Total operating expenses	2,474,304	-
22	Change in net assets from operating activities	(40,690)	72,132
	Nonoperating revenues and (expenses)		
23	State and federal appropriations for capital acquisitions	25,220	-
24	Grants, contracts and similar agreements for capital acquisitions	6,805	-
25	Contributions for capital acquisitions, trusts and endowments	19,137	149,033
26	Investment return, net of amount distributed	911,254	3,162
27	Change in value of split interest agreements	2,959	3,528
28	Other	21,754	-
29	Net asset released for capital acquisitions and reclassifications	83,022	(96,123)
30	Change in net assets from nonoperating activities	1,070,151	59,600
31	Change in net assets before cumulative effect and effect of adoption of FASB Statement No.158	1,029,461	131,732
32	Cumulative effect of change in accounting principle	-	-
33	Effect of adoption of FASB Statement No.158 (notes 1-O, 5-C)	(77,133)	-
34	Change in net assets	952,328	131,732
35	Net assets, beginning of the year	4,351,561	646,190
36	Net assets, end of the year	$ 5,303,889	$ 777,922

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

Permanently Restricted	2007 Total	2006 Total	
$ -	$ 633,387	$ 593,194	1
-	(189,225)	(177,999)	2
-	444,162	415,195	3
-	173,360	162,839	4
			5
-	381,003	394,082	6
-	119,837	122,273	7
-	219,136	271,170	8
-	290,655	248,388	9
-	438,355	388,871	10
-	134,377	125,975	11
-	304,861	310,999	12
-	-	-	13
-	2,505,746	2,439,792	14
-	1,620,037	1,541,207	15
-	114,785	116,210	16
-	440,481	431,979	17
-	120,853	121,544	18
-	30,509	28,584	19
-	147,639	128,246	20
-	2,474,304	2,367,770	21
-	31,442	72,022	22
-	25,220	25,547	23
-	6,805	15,744	24
153,244	321,414	138,392	25
(2,955)	911,461	448,164	26
5,660	12,147	16,639	27
-	21,754	15,573	28
13,101	-	-	29
169,050	1,298,801	660,059	30
169,050	1,330,243	732,081	31
-	-	(17,192)	32
-	(77,133)	-	33
169,050	1,253,110	714,889	34
1,587,604	6,585,355	5,870,466	35
$ 1,756,654	$ 7,838,465	$ 6,585,355	36

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2006)

		2007	2006
	Cash flows from operating activities		
1	Change in net assets	$ 1,253,110	$ 714,889
	Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities		
	Nonoperating items		
2	Contributions for capital acquisitions, trusts and endowments	(240,231)	(144,342)
3	Gifts in kind	(10,211)	(4,538)
4	Income for endowments and other donor restricted funds	(7,588)	(11,458)
	Non-cash items		
5	Depreciation	147,639	128,246
6	Net realized (gains)/losses on investments	(394,161)	(318,560)
7	Net unrealized (gains)/losses on investments	(702,309)	(274,997)
8	Loss on equipment disposals	5,580	4,105
9	Accretion of bond discount	228	1,367
10	Cumulative effect of change in accounting principle	-	17,192
11	Effect of adoption of FASB Statement No. 158	77,133	-
12	Other non-cash items	(21,619)	(20,007)
	Change in assets and liabilities		
13	Accounts receivable, net	(38,840)	9,328
14	Contributions receivable, net	(160,285)	(23,676)
15	Inventories and prepaid expenses	(13,012)	(14,927)
16	Accounts payable and accrued expenses	37,308	(24,683)
17	Deferred revenue and other liabilities	(34,207)	15,036
18	Deferred benefits	36,622	53,363
19	Government advances for student loans	18	(962)
20	Net cash provided/(used) by operating activities	(64,825)	105,376
	Cash flows from investing activities		
21	Proceeds from the sale and maturities of investments	8,049,830	10,351,677
22	Purchase of investments	(8,036,595)	(10,406,671)
23	Acquisition of land, buildings, and equipment (net)	(406,155)	(340,649)
24	Student loans granted	(15,725)	(15,331)
25	Student loans repaid	14,466	16,932
26	Change in funds held in trust for others	91,426	(5,887)
27	Net cash used by investing activities	(302,753)	(399,929)
	Cash flows from financing activities		
	Resources for long-term purposes		
	Contributions restricted to		
28	Investment in endowments	101,531	73,971
29	Investment in physical plant	116,213	51,538
30	Investment subject to living trust agreements	22,487	18,833
31	Income for endowments and other donor restricted funds	7,588	11,458
	Other financing activities		
32	Principal payments of bonds and notes payable	(117,936)	(278,324)
33	Proceeds from issuance of bonds and notes payable	215,751	402,643
34	Bond issuance costs incurred	(3,324)	(3,312)
35	Change in obligations under living trust agreements	29,748	(13,708)
36	Net cash provided by financing activities	372,058	263,099
37	Net change in cash and cash equivalents	4,480	(31,454)
38	Cash and cash equivalents, beginning of year	23,089	54,543
39	Cash and cash equivalents, end of year	$ 27,569	$ 23,089
	Supplemental disclosure of cash flow information		
40	Cash paid for interest	$ 33,682	$ 25,799

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

1. SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Organization

Cornell University (the 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 the University 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. These three units are subject to the common administrative authority and control of the Cornell University Board of Trustees, but generally operate as financially discrete entities. The laws establishing the Contract Colleges at Ithaca prohibit other units 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 at the private discretion of the University. In addition to the three major organizational units, the University's subsidiaries and certain affiliated organizations are included in the consolidated financial statements. All significant intercompany transactions and balances are eliminated in the accompanying consolidated financial statements.

B. Basis of Presentation

The accompanying consolidated financial statements have been prepared on an accrual basis in accordance with U.S. generally accepted accounting principles and presented in accordance with the AICPA Audit and Accounting Guide for Not-for-Profit Organizations (the Guide). The standards for general purpose financial statements of not-for-profit organizations require a statement of financial position, a statement of activities, and a statement of cash flows, and that they be displayed based on the concept of net assets. The Guide requires presentation of revenues, expenses, gains, losses, and net assets in three categories based on the presence or absence of donor-imposed restrictions: permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets include the historical dollar amount of gifts, pledges, trusts, and gains 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 donor 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., future capital projects, pledges to be paid in the future, 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 consolidated statement of activities as net assets released from restrictions. The expiration is recorded as a reclassification from temporarily restricted net assets to unrestricted net assets.

The consolidated statement of activities presents the changes in net assets of the University from both operating and nonoperating activities. Operating activities are primarily revenues and expenses that relate to carrying out the University's educational, research, and public service missions. Operating revenues include investment income and appreciation utilized to fund current operations, the largest portion of which is the distribution of investment payout as determined by the University's spending policy. Nonoperating activities primarily consist of the excess of investment earnings over amounts utilized in operating activities, contributions and net assets released from restrictions for endowment and facilities, and other activities not in direct support of the University's annual operations.

All numbers in the consolidated financial statements and accompanying notes are presented, unless otherwise indicated, in thousands.

C. Cash and Cash Equivalents

The University considers all instruments that bear original maturity dates of ninety days or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value because of the short maturity.

D. Collateral for Securities Loaned

The University has an agreement with its investment custodian to lend university securities to approved brokers in exchange for a fee. The agreement specifies that, to limit the University's risk, the securities on loan must be collateralized by cash deposits. Cash collateral is reported as both an asset and liability of the University. The collateral is invested in short-term securities, and the earnings are recorded as additional income to the investment pools.

E. Contributions

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the appropriate category of net assets in the period received. Pledges are recorded at the present value of estimated future cash flows, based on an appropriate discount rate at the time of the gift. Amortization of the discount in subsequent years is included in contribution revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions for capital projects, endowments, and similar funds are reported as nonoperating revenues. Conditional promises to donate to the University are not recognized until the conditions are substantially met.

F. Investments

The University's investments are recorded in the consolidated financial statements at fair value. The value of publicly traded securities is based upon quoted market prices and exchange rates, if applicable. Nonmarketable securities are recorded at the estimated fair value provided by external investment managers. 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. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

Investment income is recorded on an accrual basis, and purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using average cost for securities sold.

G. Derivative Instruments and Hedging Activities

The University holds derivative instruments for investment, and records the fair value within the applicable portfolio. The change in the fair value of a derivative instrument held for investment is included in nonoperating investment return in the consolidated statement of activities.

In addition, the University holds derivatives to manage its current and/or future long-term debt. These instruments are recorded at fair value as either prepaid expenses or other liabilities on the consolidated statement of financial position, and the change in fair value is recorded in other nonoperating revenues and expenses on the consolidated statement of activities.

H. Land, Buildings, and Equipment

Physical plant and equipment are stated at cost on the date of acquisition or at fair value on the date of donation, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets and is reflected as an operating expense. Expenditures associated with the construction of new facilities are recorded as construction in progress until the projects are completed.

The University's collections, whether paintings, rare books, or other tangible property, have been acquired through purchases and contributions since the University's inception. They are recognized as capital assets, net of accumulated depreciation, in the consolidated statement of financial position. A collection given as a gift is recorded at fair value as an increase in net assets in the year in which the collection is received.

I. Funds Held in Trust by Others

Funds held in trust by others represent resources that are not in the possession or under the control of the University. These funds are administered by outside trustees, with the University receiving income or residual interest. Funds held in trust by others are recognized at the estimated fair value of the assets, or the present value of the future cash flows due the University when the irrevocable trust is established or the University is notified of its existence.

J. 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 agreements. 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 of the net assets expected at a future date. Gains or losses resulting from changes in actuarial assumptions and amortization of the discount are recorded as changes in value of split interest agreements in the appropriate restriction category in the nonoperating section of the consolidated statement of activities.

K. Sponsored Agreements

Revenues under grants, contracts, and similar agreements are recognized at the time expenditures are incurred. These revenues include the recovery of facilities and administrative costs which are recognized according to negotiated predetermined rates. Amounts received in advance, in excess of incurred expenditures, are recorded as deferred revenues.

L. Medical Physicians' Organization

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

M. 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. The University uses a discount rate based on Moody's AA rating for calculating present value. Actual results may differ from those estimates.

N. Comparative Financial Information

The consolidated statement of activities includes prior year summarized information rather than by restriction class. Such information does not include sufficient detail to constitute a presentation of prior year data in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the prior fiscal year from which the summarized information was derived.

O. Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158: *Employers' Accounting for Defined Benefit Pension and other Postretirement Benefit Plans* (FAS 158), effective for fiscal year ended June 30, 2007. FAS 158 requires recognition of the funded status of these employee benefit plans on the consolidated statement of financial position as either a prepaid expense or accrued liability. The gain or loss related to recording the funded status in compliance with FAS 158 is presented as a separate line in unrestricted net assets and not as operating income or expense on the consolidated statement of activities. The University recorded an additional liability of $77,133 to reflect the unfunded status of its plans at June 30, 2007.

(dollars in thousands)

In the year ended June 30, 2006, the University, following guidelines issued in FASB Interpretation No. 47: *Accounting for Conditional Asset Retirement Obligations* (FIN 47), recorded a reduction of unrestricted net assets of $17,192, primarily for the estimated costs of future asbestos removal. This adjustment is reflected as a cumulative effect of change in accounting principle in the summarized statement of activities for the year ended June 30, 2006.

P. Reclassifications

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

Q. 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. RECEIVABLES

A. Accounts Receivable

Accounts receivable from the following sources were outstanding as of June 30:

SUMMARY OF ACCOUNTS RECEIVABLE

	2007	2006
Grants and contracts	$ 49,996	$ 43,709
Patients (net of contractual allowances)	75,512	66,278
Student accounts	5,766	4,471
Other	133,146	109,868
Subtotal	$ 264,420	$ 224,326
Less: allowance for doubtful accounts	(16,455)	(15,201)
Net accounts receivable	$ 247,965	$ 209,125

The patient accounts receivable for medical services were comprised of the following at June 30, 2007 and 2006, respectively: commercial third parties 54 percent and 59 percent; federal/state government 14 percent and 12 percent; and patients 32 percent and 29 percent. The other accounts receivable include payments expected from the Dormitory Authority of the State of New York (DASNY) for reimbursement of construction, the New York-Presbyterian Hospital for services provided by the Medical College, sponsoring agencies for grants and contracts, and matured bequests.

B. Contributions Receivable

Unconditional promises to give, or pledges, are recorded in the consolidated financial statements at present value using discount rates ranging from 5 percent to 7 percent. Contributions are expected to be realized as follows:

SUMMARY OF CONTRIBUTIONS RECEIVABLE

	2007	2006
Less than one year	$ 147,653	$ 161,661
Between one and five years	243,849	227,282
More than five years	448,769	60,172
Gross contributions receivable	$ 840,271	$ 449,115
Less: unamortized discount	(318,260)	(95,826)
Less: allowance for uncollectible amounts	(26,101)	(17,664)
Net contributions receivable	$ 495,910	$ 335,625

(dollars in thousands)

Contributions receivable as of June 30 are intended for the following purposes:

EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE

	2007	2006
Support of University operations	$ 239,604	$ 231,067
Capital purposes	117,383	40,596
Endowments and similar funds	138,923	63,962
Net contributions receivable	$ 495,910	$ 335,625

At June 30, 2007 and 2006, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions, were approximately $160,273 and $128,502, respectively.

C. Student Loans Receivable

The University participates in various federal revolving loan programs, in addition to administering institutional loan programs. Loans receivable from students as of June 30 are as follows:

SUMMARY OF STUDENT LOANS RECEIVABLE

	2007	2006
Federal revolving loans	$ 48,225	$ 48,462
Institutional loans	26,498	25,062
Gross student loans receivable	$ 74,723	$ 73,524
Less: allowance for doubtful accounts	(9,792)	(9,817)
Net student loans receivable	$ 64,931	$ 63,707

The allowance for doubtful accounts is for loans in both repayment status and those not yet in repayment status because the borrowers are still in school or in the grace period following graduation.

Due to the nature and terms of student loans, which are subject to significant restrictions, it is not feasible to determine the fair value of such loans.

3. INVESTMENTS

A. General Information

The University's investment holdings as of June 30 are summarized in the following table:

INVESTMENTS AT FAIR VALUE

	2007	2006
Cash and cash equivalents	$ 137,757	$ 181,968
Domestic equities	923,789	929,441
Foreign equities	1,097,843	896,782
Absolute return	519,094	463,693
Hedged equities	1,299,482	980,944
Fixed income	728,462	679,207
Private equities	738,445	545,693
Real assets	892,774	551,556
Other	31,579	31,165
Total	$ 6,369,225	$ 5,260,449

The University's investments are overseen by the Investment Committee of the Board of Trustees. The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the world equity, fixed income, commodities, real estate, and private equity markets. Based on guidelines established by the Investment Committee, the University's Investment Office directs the investment of endowment and trust assets, certain working capital, and temporarily invested expendable funds.

Under the terms of certain limited partnership agreements, the University is obligated to make additional capital contributions up to contractual levels. At June 30, 2007 and 2006, the University had commitments of $1,066,802 and $1,083,357, 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 maintains a number of investment pools or categories for specified purposes, the most significant of which are the Long-Term Investment Pool (LTIP), described below, and the Pooled Balances Investment Fund (PBIF), established to maximize total return derived from the investment of intermediate-term cash balances. The fair values as of June 30 were as follows:

INVESTMENTS POOLS/CATEGORIES AT FAIR VALUE

	2007	2006
Working capital	$ 3,807	$ 22,735
Intermediate-term (PBIF)	609,353	540,290
Long-term investment pool (LTIP)	5,197,503	4,180,389
Separately invested portfolio	478,902	360,682
Pooled life income funds	16,935	17,712
Other	62,725	138,641
Total	$ 6,369,225	$ 5,260,449

Additional information about the University's investment return for the years ended June 30 is presented in the following table:

SUMMARY OF INVESTMENT RETURN

	2007	2006
Interest and dividends, net of investment fees	$ 105,646	$ 102,995
Net realized gains	394,161	318,560
Net unrealized gains	702,309	274,997
Total investment return	$ 1,202,116	$ 696,552
Investment return, distributed	$ 290,655	$ 248,388
Investment return, undistributed	911,461	448,164
Total investment return	$ 1,202,116	$ 696,552

B. Long-Term Investment Pool

The 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 a rolling 5-year average of the Consumer Price Index.

The University employs a unit method of accounting for the LTIP. Each participating fund enters into and withdraws from the pooled investment account based on monthly unit market values. At June 30, 2007 and 2006, the fair values per unit were $66.62 and $55.42, respectively. The total return on the University's long-term investments, of which the LTIP is the major component, was 25.9 percent for the year ended June 30, 2007. The changes in the fair value and cost of the LTIP and information about its participating units as of June 30, 2007 and 2006 are as follows:

SUMMARY INFORMATION - LONG-TERM INVESTMENT POOL

	Fair value (in thousands)	Cost (in thousands)	Appreciation (in thousands)	Fair value per unit	Number of units
End of year	$ 5,197,503	$ 3,800,321	$ 1,397,182	$ 66.62	78,016,232
Beginning of year	$ 4,180,389	$ 3,426,160	$ 754,229	$ 55.42	75,425,544
Unrealized net gain for year			$ 642,953		
Realized net gain for year			$ 370,533		
Net gain for year			$ 1,013,486		

(dollars in thousands)

The University has a total distribution 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 provide reasonable growth in support of program budgets.

For the year ended June 30, 2007, distributions for investment payout totaled $185,508 ($2.42 per unit). $167,674 was paid out for the University's operations, and the balance of the distribution in the amount of $17,834 was either returned to principal or distributed to funds held in trust for others. The distribution for the year ended June 30, 2007 was comprised of $44,726 in net investment income and $140,782 paid from accumulated gains. For the year ended June 30, 2006, the investment payout was $168,955 ($2.30 per unit), and was comprised of $45,193 in net investment income and $123,762 paid from accumulated gains.

C. Separately Invested Portfolio, Pooled Life Income Funds, and Other

The University maintains a category of assets referred to as the separately invested portfolio. This category consists of assets that, for legal or other reasons, or by request of the donor, could not participate in any of the investment pools.

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

Other investments consist primarily of University funds on deposit at DASNY as reserves for retirement of debt and bond proceeds not yet expended. The total funds on deposit are $37,480 and $113,809 as of June 30, 2007 and 2006, respectively. The amount of bond proceeds not yet expended included in the total reserves at DASNY are $21,550 and $77,546 as of June 30, 2007 and 2006, respectively.

D. Derivative Financial Instruments

The University has approved the use of derivatives by outside investment managers, based on investment guidelines negotiated at the time the manager was appointed. They are used to adjust fixed income duration and rates, to create "synthetic exposures" to certain types of investments, and to hedge foreign currency fluctuations.

Certain investment transactions, including derivative financial instruments, involve counterparty credit exposure. The University's investment guidelines require that investment managers use only counterparties with very strong credit ratings for these derivatives. For the years ended June 30, 2007 and 2006, the University recorded an unrealized gain of $2,385 and $5,768, respectively.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are detailed as follows:

LAND, BUILDINGS, AND EQUIPMENT

	Book value at June 30, 2006	Additions	Disposals and closed projects	Book value at June 30, 2007
Land, buildings, and equipment	$ 2,197,336	$ 426,396	$ (7,530)	$ 2,616,202
Furniture, equipment, books, and collections	843,865	73,479	(30,824)	886,520
Construction in progress	435,101	336,297	(419,806)	351,592
Total before accumulated depreciation	$ 3,476,302	$ 836,172	$ (458,160)	$ 3,854,314
Accumulated depreciation	(1,391,226)			(1,506,091)
Net land, buildings, and equipment	$ 2,085,076			$ 2,348,223

Certain properties to which the University does not have title are included in physical assets at net book value as follows: (1) land, buildings, and equipment of the Contract Colleges aggregating $368,215 and $343,018 at June 30, 2007 and 2006, 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 $17,293 and $21,600 at June 30, 2007 and 2006, respectively.

(dollars in thousands)

5. DEFERRED BENEFITS

A. General Information
Accrued employee benefit obligations as of June 30 include:

SUMMARY OF DEFERRED BENEFITS

	2007	2006
Postemployment benefits	$ 21,765	$ 23,481
Pension and other postretirement benefits	212,066	119,451
Other deferred benefits	140,726	117,870
Total deferred benefits	$ 374,557	$ 260,802

Accrued postemployment benefits include workers' compensation and medical continuation benefits for those on long-term disability. The University also provides various benefits to former or inactive employees after employment, but before retirement, that are recognized when they are earned.

B. Pension and Postretirement Plans
The University's employee pension plan coverage is provided by two basic types of plan: one based on a predetermined level of funding (defined contribution), and the other based on a level of benefit to be provided (defined benefit).

The primary defined contribution 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, the College Retirement Equities Fund, the Vanguard Group (Medical College only), and Fidelity Investments (Endowed Ithaca only), all of which permit employee contributions. Total pension costs of the Endowed Ithaca and Medical College plans for the years ended June 30, 2007 and 2006 amounted to $72,771 and $68,812, respectively.

The Medical College maintains a defined benefit plan for non-exempt employees. The defined benefit plan for exempt employees was frozen in 1976, and the accrued benefits were merged with the active non-exempt retirement plan in 1989.

In addition, certain non-exempt employees of Endowed Ithaca are covered by the Cornell University Retirement Plan for Non-Exempt Employees of the Endowed Colleges at Ithaca (NERP), a defined benefit plan. In June 2006, the Board of Trustees voted to terminate this frozen plan effective December 31, 2006, with all surplus assets inuring to the plan participants. During the year ended June 30, 2007, lump sum payments were made to, or annuity contracts were purchased for, retirees and former employees with a vested benefit in NERP. The settlements totaled $19,281. The University has received authorization from the Internal Revenue Service to proceed with settlements for all remaining plan participants.

In accordance with Employee Retirement Income Security Act (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 University also provides health and life insurance benefits for eligible retired employees and their dependents. Although there is no legal obligation for future benefits, the cost of postretirement benefits must be accrued during the service lives of employees. The University elected the prospective transition approach and is amortizing the transition obligation over 20 years, through fiscal year 2012-13.

C. Obligations and Funded Status
FAS 158 requires employers to recognize the over-funded or under-funded status of defined benefit pension and postretirement plans as assets or liabilities in its statement of financial position. The incremental effect of adopting FAS 158 was an increase in deferred benefits liability of $77,133.

(dollars in thousands)

The following table sets forth the pension and postretirement plans' obligations and funded status as of June 30:

SUMMARY OF OBLIGATIONS AND FUNDED STATUS

	Pension benefits		Other postretirement	
	2007	**2006**	**2007**	**2006**
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 64,846	$ 63,399	$ 101,552	$ 86,010
Actual return on plan assets	7,801	5,083	21,276	10,679
Employer contribution	3,800	900	5,093	4,863
Benefits paid	(4,056)	(4,536)	-	-
Settlements	(19,281)	-	-	-
Fair value of plan assets at end of year	$ 53,110	$ 64,846	$ 127,921	$ 101,552
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 67,721	$ 70,861	$ 314,733	$ 337,159
Service cost (benefits earned during the period)	3,212	3,450	13,660	16,124
Interest cost	4,028	3,543	18,734	17,492
Plan amendments	-	-	-	-
Actuarial (gain)/loss	8,295	(5,597)	(11,435)	(45,837)
Settlements	(19,281)	-	-	-
Benefits paid	(4,056)	(4,536)	(9,596)	(10,205)
Projected benefit obligation at end of year	$ 59,919	$ 67,721	$ 326,096	$ 314,733
FUNDED STATUS				
Funded status	$ (6,809)	$ (2,875)	$ (198,175)	$ (213,181)
Unrecognized net transition obligation	-	-	-	25,510
Unamortized prior service cost	-	-	-	903
Unrecognized actuarial (gain)/loss	-	11,872	-	75,403
Accrued benefit liability recognized in the consolidated statement of financial position	$ (6,809)	$ 8,997	$ (198,175)	$ (111,365)
AMOUNTS RECORDED IN UNRESTRICTED NET ASSETS NOT YET AMORTIZED AS COMPONENTS OF NET PERIODIC BENEFIT COST				
Net transition obligation	-		$ 21,866	
Prior service cost	-		639	
Net actuarial (gain)/loss	5,992		48,636	
Amount recognized as reduction in unrestricted net assets	$ 5,992		$ 71,141	

The accumulated benefit obligation for the pension plans was $46,737 at June 30, 2007 and $55,798 at June 30, 2006. The accumulated benefit obligation differs from the projected benefit obligation in the table above in that it includes no assumptions about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels. For postretirement plans other than pensions, the accumulated benefit obligation is the same as the projected benefit obligations because the liabilities are not compensation-related.

(dollars in thousands)

D. Net Periodic Benefit Cost

Net benefit expense related to the pension and postretirement plans for the years ended June 30 includes the following components:

NET PERIODIC BENEFIT COST

	Pension benefits 2007	Pension benefits 2006	Other postretirement 2007	Other postretirement 2006
Service cost (benefits earned during the period)	$ 3,212	$ 3,450	$ 13,660	$ 16,124
Interest cost	4,028	3,543	18,734	17,492
Expected return on plan assets	(4,923)	(4,741)	(8,309)	(7,025)
Amortization of initial transition obligation	-	-	3,644	3,644
Amortization of prior service cost	-	-	264	313
Amortization of net (gain)/loss	612	1,280	2,365	7,133
Settlement (gain)/loss	10,685	-	-	-
Net periodic benefit cost	$ 13,614	$ 3,532	$ 30,358	$ 37,681

The amounts of transition obligation, prior service costs, and actuarial gains/losses that will be amortized into net periodic benefit cost for the year ending June 30, 2008 are estimated as follows:

ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST

	Pension benefits	Other postretirement
Transition obligation	$ -	$ 3,644
Prior service cost	-	264
Net actuarial (gain)/loss	309	1,382
Total	$ 309	$ 5,290

E. Actuarial Assumptions

Assumptions used in determining the pension and postretirement plans benefit obligations and net periodic costs are:

SUMMARY OF ACTUARIAL ASSUMPTIONS

	Pension benefits 2007	Pension benefits 2006	Other postretirement 2007	Other postretirement 2006
USED TO CALCULATE BENEFIT OBLIGATIONS AT JUNE 30				
Discount rate	6.00%	6.00%	6.00%	6.00%
Rate of compensation increase	6.10%	6.10%		
USED TO CALCULATE NET PERIODIC COST AT JULY 1				
Discount rate	6.00%	5.00%	6.00%	5.00%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	6.10%	6.10%		
ASSUMED HEALTHCARE COST TREND RATES				
Healthcare cost trend rate assumed for next year			8.00%	9.00%
Ultimate trend rate			5.00%	5.00%
Years to reach ultimate trend rate			3	4

The healthcare cost trend rate assumption has a significant effect on the amounts reported for other postretirement (healthcare) plans. Increasing the healthcare cost trend rate by 1 percent in each future year would increase the benefit obligation by $56,988 and the annual service and interest cost by $6,754. Decreasing the healthcare cost trend rate by 1 percent in each future year would decrease the benefit obligation by $45,820 and the annual service and interest cost by $5,297.

(dollars in thousands)

F. Plan Assets

The plan assets for Endowed Ithaca and the Medical College are invested with an outside trustee for the sole benefit of the plan participants. 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 (primarily historically based), anticipated value added by the investment managers, and expected average asset class allocations. The expected returns on plan assets by category are 9.25 percent on equity securities, 6.00 percent on debt securities, and 7.50 percent on real estate.

Plan asset allocations by category at June 30 are as follows:

SUMMARY OF PLAN ASSETS

	Target allocation	Pension benefits 2007	Pension benefits 2006	Other postretirement 2007	Other postretirement 2006
PERCENTAGE OF PLAN ASSETS					
Equity securities	39-85%	52.0%	61.0%	70.1%	75.0%
Debt securities	15-55%	44.6%	33.0%	29.9%	25.0%
Real estate	0-5%	3.4%	6.0%	0.0%	0.0%
Total		100.0%	100.0%	100.0%	100.0%

G. Expected Contributions and Benefit Payments

The expected annual contributions and benefit payments that reflect anticipated service are as follows:

EXPECTED CONTRIBUTIONS AND BENEFIT PAYMENTS

	Pension benefits	Other postretirement Employer paid	Other postretirement Government subsidy
UNIVERSITY CONTRIBUTIONS			
2008	$ 3,000	$ 5,336	
FUTURE BENEFIT PAYMENTS			
2008	$ 9,190	$ 10,957	$ 1,544
2009	2,778	11,944	1,735
2010	2,841	13,101	1,918
2011	3,478	14,334	2,096
2012	3,727	15,422	2,285
2013-2017	22,309	97,467	14,983

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 healthcare benefit plans. The estimated future government subsidy amounts are reflected in the table above.

H. Contract College Employees

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 consolidated 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, 2007 and 2006, was $17,488 and $17,889, respectively, and are included in operating expenses.

(dollars in thousands)

6. FUNDS HELD IN TRUST FOR OTHERS

The University, in limited instances, invests funds as a custodian for other closely related parties. Independent trustees are responsible for the funds and for the designation of income distribution. The New York Hospital-Cornell Medical Center Fund, Inc., which benefits the New York Weill Cornell Medical Center of the New York-Presbyterian Hospital, is the major external organization invested in the University's long-term investment pool with assets having a market value of $186,461 and $96,824 at June 30, 2007 and 2006, respectively. Of these investments, a portion of the future income stream has been directed in perpetuity to benefit the Medical College. The present value of this income stream, calculated to be $74,141 and $57,241 at June 30, 2007 and 2006, respectively, has been recorded as a reduction of the funds held in trust for others liability.

7. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30 are summarized as follows:

SUMMARY OF BONDS AND NOTES PAYABLE

	2007	2006	Interest rates	Maturity date
Dormitory Authority of the State of New York (DASNY)				
Revenue Bond Series				
1990B	$ 57,300	$ 57,800	3.04 to 4.05*	2025
2000A	58,320	59,960	2.99	2029
2000B	76,765	78,615	4.63	2030
2004	90,150	92,100	3.51	2033
2006	239,750	248,570	4.00 to 5.00	2035
1993 Student loan bond capital appreciation	-	1,155	n/a	2007
1995 Student loan bond capital appreciation	6,339	8,150	5.80 to 6.15	2008
Tax-exempt commercial paper	89,005	19,205	2.99 to 3.72*	2037
Bond Series 1987B	10,370	11,760	11.11	2012
Taxable commercial paper	86,979	37,791	5.08 to 5.40*	-
Industrial Development Agency				
2000	4,335	5,290	5.00 to 5.25	2011
2002A	42,710	42,780	4.52	2030
2002B	15,390	15,390	4.33	2015
Student Loan Marketing Association	5,340	5,635	5.75 to 6.50	2019
Urban Development Corporation	2,750	2,875	-	2029
Capitalized leases				
312 College Ave	11,296	11,836	various	2020
Other	3,308	3,152	various	2009-2029
Total bonds and notes payable	$ 800,107	$ 702,064		

** Rates presented are the actual rates paid during the year ended June 30, 2007. These rates are variable based on market conditions.*

The University's bonds and notes payable had a carrying amount of $800,107 and $702,064 at June 30, 2007 and 2006, respectively, compared to an estimated fair value of approximately $808,513 and $710,655 at June 30, 2007 and 2006, 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 and not an additional liability to the University. Interest expense during the years ended June 30, 2007 and 2006 was approximately $30,280 and $27,217, respectively. Effective for the year ended June 30, 2007, the University capitalized interest on self-constructed assets, such as buildings, in the amount of $4,218.

(dollars in thousands)

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 consolidated 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. Also, certain revenue bonds require compliance with an asset-to-liability ratio and an unencumbered securities-to-operating-expense ratio.

The University has eight 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 adjustments to interest expense. Three of the eight interest rate swap agreements are forward-starting swaps negotiated in the year ended June 30, 2007. Under four agreements in effect at June 30, 2007, the counterparty pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association (SIFMA) index (formerly the Bond Market Association index), and under four other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month London Interbank Offered Rates (LIBOR) rate. Detailed information about the interest rate swaps is shown in the following table:

SUMMARY OF INTEREST RATE SWAPS

Notional amount	Interest rate	Commencement	Expiration date	Basis
$ 78,320	2.99%		October 1, 2007	SIFMA
15,390	4.33%		July 1, 2010	SIFMA
42,710	4.52%		July 1, 2030	SIFMA
76,100	4.63%		July 1, 2030	LIBOR
90,150	3.51%		July 1, 2033	LIBOR
200,000	3.84%	July 1, 2008	July 1, 2037	SIFMA
200,000	3.45%	July 1, 2010	July 1, 2039	LIBOR
200,000	3.48%	July 1, 2012	July 1, 2041	LIBOR

The University continues to issue tax-exempt commercial paper under an agreement entered into in the year ended June 30, 1999. The University amended the agreement in the year ended June 30, 2007, increasing the maximum amount outstanding at any one time from $100,000 to $200,000. In addition, there is no longer a cap on the maximum amount of commercial paper to be issued for the program. The funds may be used for capital projects and equipment purchases for the Ithaca and Medical College campuses.

The University also has a taxable commercial paper program to finance working capital, capital projects, and equipment purchases for the Ithaca and Medical College campuses. The University amended the program in the year ended June 30, 2007, increasing the maximum amount outstanding at any one time from $100,000 to $200,000.

Scheduled principal and interest payments on notes and bonds for the next five fiscal years and thereafter are shown below:

ANNUAL DEBT SERVICE REQUIREMENTS

Year	Principal	Interest	Total
2008	$ 25,031	$ 36,703	$ 61,734
2009	22,672	35,326	57,998
2010	23,248	34,264	57,512
2011	23,853	33,077	56,930
2012	24,518	31,752	56,270
Thereafter	680,785	439,120	1,119,905
Total	$ 800,107	$ 610,242	$ 1,410,349

The University increased the working capital line of credit from $75,000 to $100,000 for short-term cash flow needs in the year ended June 30, 2007. As of June 30, 2007 and 2006, the $30,500 and $54,400, respectively, borrowed against the line of credit is recorded as other liabilities in the consolidated statement of financial position.

(dollars in thousands)

8. OPERATING LEASES

Although the University generally purchases, rather than leases, machinery and equipment, the University does enter operating lease agreements for the use of real property. Total lease expense was $18,011 and $15,444 for the years ended June 30, 2007 and 2006, respectively. The future annual minimum lease payments in the following table are payments under operating leases expiring at various dates through November 1, 2054.

ANNUAL MINIMUM OPERATING LEASE PAYMENTS

Year	Payments
2008	$ 16,755
2009	15,652
2010	15,259
2011	13,891
2012	11,437
Thereafter	69,897
Total minimum operating lease payments	$ 142,891

9. FUNCTIONAL EXPENSES AND STUDENT AID

Total expenses by functional categories for the years ended June 30 are as follows:

FUNCTIONAL EXPENSES

	2007	2006
Instruction	$ 555,434	$ 534,837
Research	505,452	497,933
Public service	108,847	105,893
Academic support	236,784	220,012
Student services	111,279	106,667
Medical services	412,270	392,079
Institutional support	360,426	330,948
Enterprises and subsidiaries	183,812	179,401
Total expenses	$ 2,474,304	$ 2,367,770

The expenses for operations and maintenance of facilities, depreciation, and interest are allocated to functional categories based on square footage. The amount allocated for operations and maintenance was approximately $143,344 and $138,221 for the years ended June 30, 2007 and 2006, respectively.

Student financial assistance, other than assistance in exchange for services, is shown as a component of instruction expense unless the assistance is for tuition and mandatory fees. If the assistance is for tuition and mandatory fees, the amounts are recorded as a discount from tuition revenue, not an expense. Total financial assistance classified as instruction expense was $23,401 and $21,463 for the years ended June 30, 2007 and 2006, respectively.

(dollars in thousands)

10. NET ASSETS

The University's net assets as of June 30 are as follows:

SUMMARY OF NET ASSETS

	Unrestricted	Temporarily restricted	Permanently restricted	2007 Total	2006 Total
Operations	$ 17,979	$ 391,996	$ -	$ 409,975	$ 444,818
Student loans	7,064	-	30,711	37,775	41,458
Facilities and equipment	1,702,323	154,497	-	1,856,820	1,621,301
Endowment and similar funds	3,576,523	163,741	1,684,469	5,424,733	4,385,161
Living trust funds	-	67,688	41,474	109,162	92,617
Total net assets	$ 5,303,889	$ 777,922	$ 1,756,654	$ 7,838,465	$ 6,585,355

11. 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.

12. SUBSEQUENT EVENT

In July 2007, a hedge fund in which the University was invested was unexpectedly liquidated. The University estimates its loss at approximately $20,000.

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Cornell University
341 Pine Tree Road
Ithaca, New York 14850-2820
dfa-comm@cornell.edu
http://www.dfa.cornell.edu
607/255-6240

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