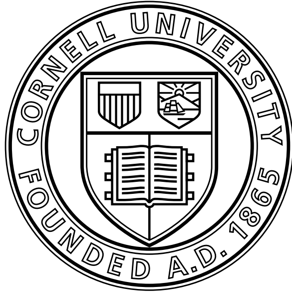

Cornell University 2007-2008 Financial Report

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Economic conditions in the past year, and especially in the past few weeks, have drawn attention to financial portfolios throughout our nation. With its substantial endowment and significant fiduciary responsibilities, Cornell University is no exception. As always, we are committed to providing the lowest overall cost of capital balanced with managed risk exposure, and the university uses debt as a strategic tool to manage its finances. Given the current state of the capital markets and concerns about liquidity, I thought this would be a good time for an examination of Cornell's debt strategy.

Higher Education Debt Market

Nationally, higher education is facing aging facilities with costly infrastructure needs, charitable contribution levels that do not keep pace with program requirements, and greater global competition. Debt financing allows institutions of higher education to pay for their assets over time, based upon useful life, matching a payment stream with the economic life of a particular asset. Through debt financing, universities are able to construct state of the art research facilities, residence halls, classrooms, and critical care facilities, which are necessary to maintain a competitive advantage and provide the ability to attract top faculty and students while performing the key missions of teaching, research, and service.

Higher education debt, which was almost non-existent until the early 1980s, has swelled to its current level over the last twenty five to thirty years, because investors have recognized that universities with strong credit ratings are an attractive pool of assets–a revenue stream against which money can be borrowed. In the early 1980s, higher education debt began to increase at a modest pace to meet the growing need for capital. In the 1980s and 1990s, use of debt as a management tool continued to increase more quickly, and by the year 2000, debt was growing at a fast pace. Since 2000, in eight short years, the increase in debt at higher education institutions has more than tripled. Today, higher education is a leader in effectively using tax-exempt debt to advance institutional missions.

Debt affordability can be described as the key determinant in an institution's ability to issue and repay debt. Since debt is a long-term obligation and debt service is a current expenditure, typically the institution's outstanding debt is measured against its unrestricted assets and debt service expense is measured against available liquid resources. To manage institutional risk, universities look to their cash projections as an indicator of their ability to pay for the debt. Often, the University's "debt affordability limit," the maximum debt the University can bear, is less than its "debt capacity limit," which is the level of debt that the University can prudently show on its balance sheet—a function of factors such as strength of student demand, unrestricted assets, risk profiles of potential investors, financial rating agencies, and fundraising capabilities.

While utilizing debt to maximize financial position may be strategically sensible, doing so carries with it certain risks. For example, there may be interest rate risk if variable rate debt is issued without being hedged; there may be tax risk if variable rate or hedged tax-exempt debt is issued; there may be counter-party risk if a third party fails to make required payments; and there is always risk that a change in tax law or taxable use of a facility will eliminate the advantage of using tax-exempt over taxable bonds. Additionally, liquidity risk may be incurred, such as when an issuer cannot find a market for its bond, resulting in no liquidity facility, or when an issuer is unable to renew a liquidity facility needed to support variable rate demand bonds during a regular remarketing schedule. In these cases, the University would be required to purchase the bonds.

Cornell Debt History and Strategy

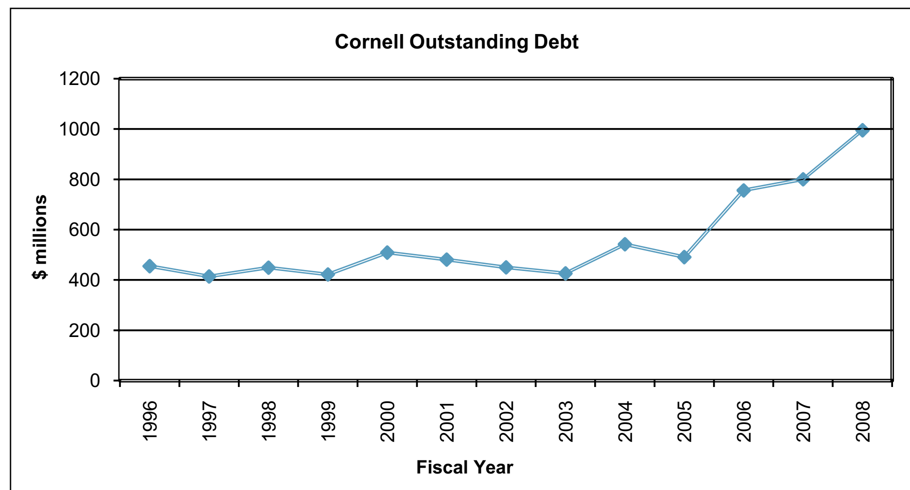
In the late 1940s and early 1950s, Cornell's Board of Trustees debated the merits of debt financing. In the late 1960s, the trustees again were concerned about the level of debt at Cornell and thus limited the amortization period to five years or less. By 1973, the University had approximately $60 million in debt and the question of "How much debt is excessive?" was a discussion topic at more than one Board meeting. At that time, Cornell compared its outstanding debt to the value of physical plant ($367 million). In 1973, 16.3 percent of the value of physical capital was debt financed, compared to the national average of 18.4 percent for private universities.

"Cornell has acted strategically when issuing debt, deciding carefully when debt is appropriate, and which type of debt should be issued."

In 1984, Cornell's credit rating was upgraded to AA and a ten-year financing plan was developed. Use of debt was still considered a privilege and used only after careful and judicious consideration. Because of Cornell's limited focus on its use of debt as a strategic tool, its ratios for debt capacity were significantly more favorable than its peers, although its total cost of debt was higher.

By the mid 1990s, Cornell not only used debt for capital projects, but also participated in three different bond programs with other New York State colleges and universities to borrow funds for student loan programs. Cornell borrowed approximately $30 million, after establishing the standard that these bond proceeds would be used to make student loans.

The chart below shows the amount of outstanding debt by year since 1996.



Cornell has acted strategically when issuing debt, deciding carefully when debt is appropriate, and which type of debt should be issued. For example, in 1996, the University refunded $130 million of its 1986 bonds due to mature in 2015 by using commercial paper and other variable debt. The present-value savings from using this structure was almost $2 million.

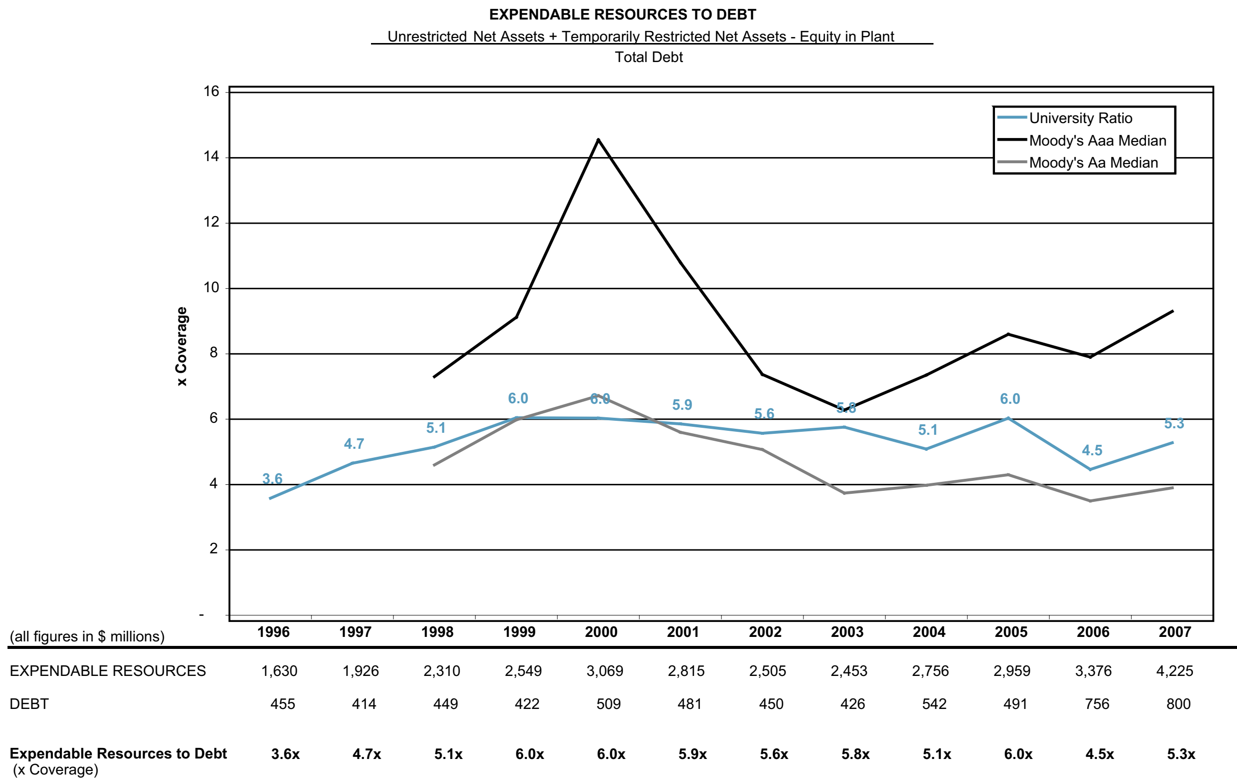
The University then began using debt more aggressively as a strategy to fund working capital and to provide interim bridge funds for capital projects at favorable interest rates. In 1999, it established a tax-exempt commercial paper program at an authorized level of $100 million. The average interest rate for the first four years of the program was 37 basis points lower than the national Bond Market Association (BMA) weekly variable rate bond index. This was due to Cornell's good credit rating and the high New York State income tax rates. The University added a taxable commercial paper line in 2002, and both lines have subsequently been increased to $200 million each, for a total of $400 million. Commercial paper is used for short term bridge financing.

The University's financial leadership team believes its responsibility is to maintain the lowest cost of capital without exposing the University to the earlier-described risks. This has been accomplished by fixing attractive interest rates through significant use of interest hedges. Currently, the University's adjusted portfolio interest rate is 3.7 percent. The University also locked in interest cost on future debt needs through the execution of approximately $1 billion in future interest rate hedges. In addition, four hedges were obtained through multiple Aaa/AAA rated swap counterparties, limited to $400 million each to minimize credit exposure. The University also established a $50 million Treasury Bond Fund to provide a two month liquidity reserve. Outside consultants have indicated that the University's risk exposure is well diversified and actively managed.

On June 30, 2008, the total Cornell outstanding debt is approximately $1 billion. The University continues to maintain its AA credit rating and regularly compares its debt capacity and ratings with its peers. The University and its trustees also periodically evaluate whether it should attempt to become an AAA rated institution. In each discussion the conclusion has been that there is little difference in interest rates of AA and AAA bonds. Institutional debt strategies are focused on maintenance of its AA credit rating; the value of an AAA is not worth the premium of building up assets on the balance sheet.

As the University establishes and revises institutional priorities through its strategic planning processes–capital planning, campus master plan and the 10-year financial plan–it considers utilizing a mix of financing and funding sources including gifts, internal reserves, and external debt based on its affordability level. Appropriate use of leverage enables the University to advance its mission, achieve its strategic goals, and ensure financial health over the long term. Cornell's 10-year financial plan is aligned with its capital construction plan, and debt affordability levels intend to inform debt funding levels without the loss of financial flexibility, balance sheet strength, or competitive advantage.

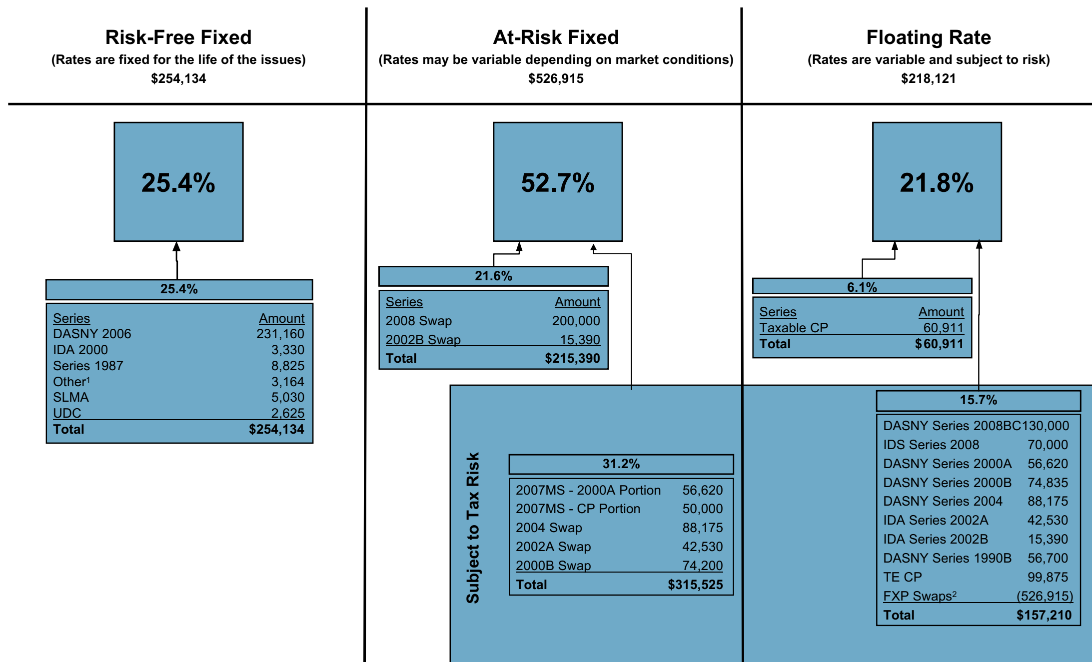
One key financial ratio is expendable resources to debt. As you can see from the chart below, the University has maintained a strong ratio.



(all figures in $ millions)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EXPENDABLE RESOURCES	1,630	1,926	2,310	2,549	3,069	2,815	2,505	2,453	2,756	2,959	3,376	4,225
DEBT	455	414	449	422	509	481	450	426	542	491	756	800
Expendable Resources to Debt (x Coverage)	**3.6x**	**4.7x**	**5.1x**	**6.0x**	**6.0x**	**5.9x**	**5.6x**	**5.8x**	**5.1x**	**6.0x**	**4.5x**	**5.3x**

The University has typically borrowed at variable rates and then hedged its interest rate risk through fixed rate swaps. Cornell's method to reduce risk is to structure swap agreements only with counterparties that are rated at or above the University's credit rating, and to require collateralization of the swap in the event of a downgrade. Cornell has been a leader among its peers in utilizing low variable rates while protecting risk through the use of swaps. The University is currently evaluating the appropriate mix of swaps and debt structures based on its current 10-year plan and in light of the current economic conditions and risk environment. Cornell currently has 25 percent of its debt portfolio in fixed rate debt, with another 53 percent in synthetic fixed rates.

CURRENT PORTFOLIO ALLOCATIONS



All figures in $000s. As of 6/30/08, unless otherwise noted.
[1] – Assumes Other at 4% interest rate and assumption is carried forward through rest of the presentation and analysis, unless otherwise noted.
[2[– Includes 2008 Swap, 2002BSwap, 2002ASwap, 2007MS, which has an extension option, 2004 Swap, and 2000B swap. Does not include forward starting swaps.

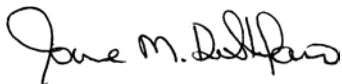
In the recent environment of 50-year low interest rates, the University has been able to take advantage of a weighted average interest rate of approximately 3.7 percent for its current outstanding debt. The average spread between short-term and long-term debt over the past 20 years has been about 2.75 percent, making a managed level of variable debt a cost effective debt strategy.

Management has further diversified the debt portfolio by expanding the number of high quality investment and commercial banks used as partners for underwriting bonds and providing liquidity facilities. Management regularly reviews its credit ratings, financial ratios, debt outstanding, annual debt service, available capacity, and affordability with the Finance Committee of the Board of Trustees.

Summary

Through the appropriate use of financial leverage and management of associated risks, debt is used as a financial tool to fulfill Cornell's strategic plan. Debt provides the financial resources for investment to build the new facilities needed to maintain and grow academic operations, expand research activities, preserve cash, and meet the needs of the next generation and beyond.

The current economic conditions require the University to pause and reevaluate the appropriate mix of debt structures for the debt portfolio in light of risk tolerance, while meeting the needs of the University in these trying times. The goal over the coming year is to provide better transparency and clearer guidelines, to continue to strengthen Cornell's academic partnership, and to maintain a strong balance sheet to meet the future needs of the University.



Joanne M. DeStefano
Vice President for Finance and Chief Financial Officer

In November, 2007, the Federal Reserve Bank of San Francisco held a conference on "*Recent Trends in Economic Volatility.*" The participants concluded that over the last 25 years the U.S. economy has become much less volatile, with swings from boom to bust greatly reduced. This trend might well continue in the long run, but economic activities during the last half of this fiscal year began to suggest instability and uncertainty.

Although there was weakness in the national economy during fiscal year ended June 30, 2008, the University's audited financial statements reflect the overall financial soundness of the University.

NEW STANDARDS, EMERGING ISSUES AND INITIATIVES

Financial Standards Accounting Board (FASB)

In the current fiscal year, Cornell adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which requires organizations to recognize a liability or reduction of an asset in the financial statements for any tax position that fails to meet the "more likely than not" threshold. FIN 48 had no impact on the University's results as disclosed in the notes to the consolidated financial statements (Note O).

The University elected early adoption of one the disclosure requirements in the FASB's staff position FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.* We have included in the notes to the consolidated financial statement (Note 10) information on the endowment that includes the opening balances of true endowments and funds functioning as endowment (FFE), current year activities and the endowment balances at June 30, 2008.

> Contributions for capital projects and the endowment "...increased 13.5 percent for the fiscal year ended June 30, 2008."

In the prior fiscal year, the University adopted FAS 158 and recognized a reduction in unrestricted net assets of $77.1 million for the unfunded status of its pension and post-retirement medical benefits in unrestricted net assets. The FAS 158 adjustment for fiscal year ended June 30, 2008 reflects an expense of $16.5 million in nonoperating activities.

Regulatory Environment

Congress and the IRS continue to scrutinize not-for-profit organizations in general and higher education in particular. During this fiscal year, the University responded to the Senate Finance Committee's lengthy questionnaire about endowments, payout policies, student enrollments, tuition rates and financial aid. On September 8, 2008 Senator Grassley and Congressman Welch held a roundtable discussion as another step "… to ensure accountability by the not-for-profit sector." Although there is currently no proposed legislation to mandate payout rates from endowments, the issues of endowment growth, payout rates and cost of education continue to be a focus of Congress.

The IRS is exceedingly active in monitoring the not-for-profit sector with the stated objectives of increased transparency, accountability, and compliance. The IRS issued the final, radically redesigned information return (IRS Form 990) effective for fiscal year 2009 (tax year 2008), and is also considering a new university-specific schedule for the 990 to capture more information about student population and cost of education. This schedule would be in addition to the sixteen schedules now included in the new 990.

In addition, the IRS has developed a compliance questionnaire for higher education similar to their compliance questionnaire for hospitals and tax exempt bond financing, and plans to send this questionnaire to approximately four hundred colleges and universities in early fall 2008.

LONG-TERM INVESTMENT POOL

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

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

Current Initiatives

The University continues to refine the Ten-Year Financial Plan that it implemented during fiscal year 2007. The ongoing development and revision to this planning tool is important in identifying resources essential for funding strategic initiatives that include, but are not limited to, new buildings, systems, and the recruitment and retention of faculty and staff.

FINANCIAL YEAR IN REVIEW

The University's wealth, measured by the current-year change in net assets, continues to grow. Net assets increased by $200.2 million for fiscal year ended June 30, 2008. This year's increase, albeit modest, occurred during a year marked by overall weakness and volatility in the economy.

> "Total net assets exceed $8 billion, and unrestricted net assets account for over $5 billion of the University's accumulated wealth."

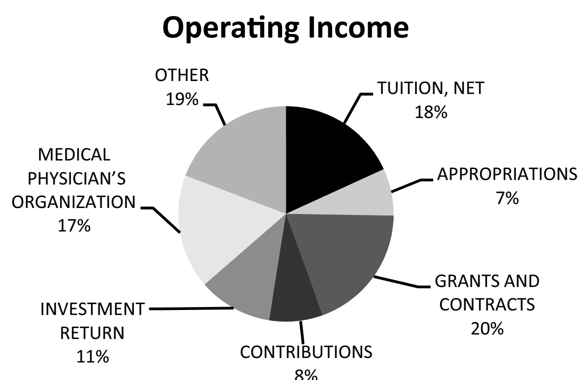
The University's investment portfolio generated returns of 2.7 percent for the current year, compared to 25.9 percent in the prior fiscal year. This significant decline in investment returns is the major factor in the University's smaller increase to total net assets. The University's investment returns, did, however, outperform a passive benchmark (i.e., 75 percent S&P and 25 percent Lehman Aggregate indexes) by more than 10 percent.

The notes to the consolidated financial statements (Note 10) provide detailed information on the University's net assets by restriction classification and purpose. In the fiscal year ended June 30, 2008, operating activities generated a loss with a corresponding decline in unrestricted net assets.

Cornell's current-year activities, based on the combined results from both operating and nonoprating activities, generated an increase to total net assets, as noted above, of $200.2 million. Although this increase represents a decline from the prior year, the current year results continue to show solid performance.

Operating Income and Expenses

For the fiscal year ended June 30, 2008, the change in net assets from operations reflects a loss of $69.8 million. The University's operating revenues grew by $136.2 million, or 5.4 percent, while growth in operating expenses grew at a rate faster than revenues, as they did during the prior year.



1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
$ 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
147.8	146.4	135.4	132.5	124.3	88.9	234.8	202.0	128.7	236.8
(40.5)	(55.5)	(84.6)	(110.5)	(128.1)	(116.4)	(37.1)	(33.7)	(125.1)	(130.1)
225.4	436.8	(294.9)	(315.5)	(25.8)	376.9	355.3	388.9	1013.5	73.9
$ 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	$ 5,378.1
$ 51.16	$ 58.16	$ 51.85	$ 44.95	$ 42.65	$ 46.51	$ 50.11	$ 55.42	$ 66.62	$ 65.37

Tuition revenues, net of the scholarship allowance, increased by $31.4 million, a 7.1 percent increase from the prior year, due to increases in both overall enrollment in the graduate and professional schools and authorized tuition rates.

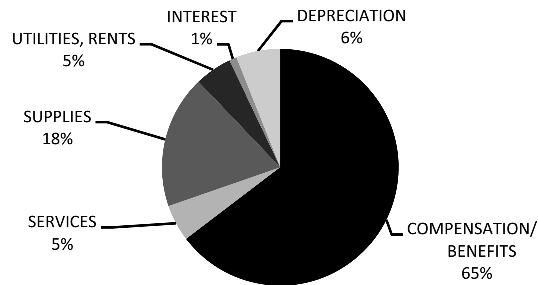
Appropriations, both federal and state, increased by $17.5 million. There was a one-time increase of $3.7 million in federal appropriations and an increase of $13.8 million in New York State appropriations. With the current state of New York's economy, it is likely that state appropriations will decline in future years.

Income from sponsored awards increased overall by $8.7 million, consisting of a $4.3 million increase for the endowed colleges, a $9.4 million increase for the Medical College, particularly in federally funded awards, and a $5.0 million reduction in the contract colleges. Indirect cost recoveries decreased by $2.2 million, based primarily on the phase-in of lower negotiated rates for the contract colleges, which affect a larger proportion of the total active awards. When current awards are extended or new awards granted, they are subject to the lower negotiated rate.

Cornell's donors contribute in major ways to the University's growth, focusing in the current year on support for capital projects and the endowment, consistent with the goals of the capital campaign. Contributions for these purposes, reported as nonoperating revenues, increased 13.5 percent for fiscal year ended June 30, 2008. Contributions for operations have declined by less than 1 percent from the prior year.

Cornell's distribution of investment returns for operations decreased by $9.7 million, or 3.4 percent. The distribution has two major components: payout from the Long Term Investment Pool (LTIP), based on the per-share rate, and payout from the Pooled Balance Income Fund (PBIF). The payout rate from the LTIP increased by 9.0 percent to $2.66 per share, from $2.42 in the prior fiscal year. In fiscal year ended June 30, 2008, market conditions did not support an additional discretionary payout from the PBIF to help fund initiatives. In the prior year, $38.0 million of additional funding was provided from PBIF investment gains to support major initiatives.

The University's total operating expenses increased by 9.6 percent during fiscal year ended June 30, 2008. Compensation and benefits represent 64.5 percent of total operating expenses, a pattern that is generally consistent with other research universities. The combined costs for compensation and benefits increased by $126.5 million, or 7.8 percent.



The salary and wage component increased by $90.0 million, to a total of $1.4 billion for fiscal year ended June 30, 2008. Salary and wage costs at the Medical College account for approximately $46.0 million of the increase. Employment at the Medical College increased by 9.1 percent to support key strategic initiatives: faculty hiring in key departments; expanded research initiatives, administrative support for research compliance, and other activities in Qatar; systems implementations; and the Medical Physicians' Organization. The workforce in Ithaca grew by approximately 1.1 percent. The University's annual salary improvement program also impacts the $90.0 million increase, but within the range established by management (i.e., overall salary improvement increases of 3-4 percent).

Benefit costs for fiscal year ended June 30, 2008 were $348.1 million, compared to $311.7 million in the prior year. This 11.7 percent increase includes pension costs, post-retirement benefit costs, vacation accruals, and costs for medical and workers' compensation claims incurred but not yet paid.

The costs of purchased services increased by $18.1 million, or 14.3 percent, due to increases in patent-related expenses, investment management fees, and costs for systems implementations at both the Ithaca and the Medical College campuses. The costs for supplies and general expense increased by $52.1 million, or 12.2 percent. Increased activities at the Medical College accounted for $18.4 million of the increase. This includes a broad range of expenses such as lab costs, office supplies, maintenance expenses, and additional expenses for activities in Qatar.

Depreciation expense continues to increase as the new buildings open and new research labs become operative, consistent with Cornell's strategic plan. Two major facilities opened in fiscal year ended June 30, 2008: the Life Science Technology Building and the East Campus Research Building. In addition, the University uses shorter lives for components of buildings where appropriate, and this, too, serves to increase depreciation expense.

Nonoperating Income and Expenses

Nonoperating income for fiscal year ended June 30, 2008 was $269.9 million, compared to $1.3 billion in the prior year. The decline, as mentioned above, is attributable in large part to the investment return. A review of Cornell's recent history reflects the consistent impact of investment return on each year's performance. Overall investment return declined by $1 billion, or 85.8 percent, for fiscal year ended June 30, 2008.

In fiscal year ended June 30, 2008, there was a loss of $33.4 million recorded as "other" in nonoperating activities. This loss consists primarily of the year-end market adjustment for the debt swaps based on interest rates in effect at June 30, 2008.

Statement of Financial Position (Balance Sheet)

The University's total assets grew by 5.2 percent, to $10.6 billion at June 30, 2008. Contributions receivable increased by $170.9 million, or 34.4 percent, based on gross pledges less the discount and allowance for uncollectible pledges. Total new pledges for fiscal year ended June 30, 2008 were $265.8 million. The increase of $170.9 million includes $17.5 million in accretion of the discount associated with the net present value calculation at the time of the gift.

The University's land, buildings and equipment, net of deprecation, increased by 11.4 percent to $2.6 billion at June 30, 2008. Cornell capitalized numerous projects in this fiscal year. As mentioned previously, the two major building projects are the Life Science Technology Building, with capitalized costs of $133.8 million, and the East Campus Research Facility, with capitalized costs of $51.5 million.

Extraordinary returns on investments over the past several years were the primary reason for the University's substantial increase in assets over that time period. In fiscal year 2008, the investment portfolio's overall return was 2.7 percent, and the value of total investments increased to $6.5 billion, from $6.4 billion in the prior year.

Inventories and prepaid expenses declined due to the market adjustment for debt swaps. The year-end adjustment for debt swaps is affected by interest rates at one point in time. In the current year, the adjustment was recognized as an expense based on interest rates at June 30. This market adjustment caused the decrease in prepaid expense and the corresponding increase in accounts payable and accrued expenses. The increase in deferred revenue and other liabilities of $161 million is based primarily on the University's increase in its line of credit of $134 million.

At June 30, 2008, the University's liability for deferred benefits was $425.0 million, compared to $374.6 million in the prior year. The $50.4 million increase reflects, as highlighted in the section on operating expenses, increased costs for vacation accruals, the impact of recording the unfunded status for pensions and post retirement medical benefits (i.e., the FAS 158 adjustment), and expenses for medical and workers' compensation claims incurred but not yet paid.

Bonds and notes payable increased by approximately 24.9 percent, due primarily to the new financing in 2008. The increase in debt reflects the University's commitment to fund infrastructure, buildings, and equipment through strategic use of debt as well as contributions from donors, and the use of unrestricted net assets.

Summary

Cornell's balance sheet reflects its financial strength. The University's net assets grew by $200.2 million, even in a year marked by overall economic weakness. Total net assets exceed $8 billion, and unrestricted net assets account for over $5 billion of the University's accumulated wealth.

The new format for the consolidated statement of activities displays the results from operating activity separately from the results of nonoperating activity. We hope this format enhances the reader's understanding of the University's financial activities, including the extraordinary generosity of the University's donors who provide major support for operating initiatives and critical funding for plant and endowments which are cornerstones for ensuring the University's continued excellence.

Anne Shapiro
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.

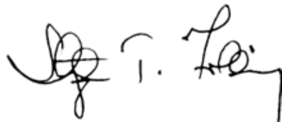
The consolidated financial statements have been audited by the independent accounting firm KPMG LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The University believes that all representations made to KPMG LLP during its 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.

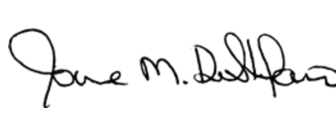
There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.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

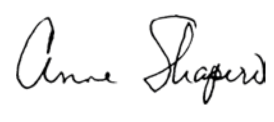
David J. Skorton
President
Cornell University



Stephen T. Golding
Executive Vice President for
Finance and Administration



Joanne M. DeStefano
Vice President for Finance
and Chief Financial Officer



Anne Shapiro
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, 2008, 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 2007 consolidated financial statements and, in our report dated September 20, 2007, we expressed an unqualified opinion on those consolidated financial statements. Our opinion on the University's 2007 consolidated financial statements included an explanatory paragraph regarding the University's adoption of the provisions of Financial Accounting Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*.

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, 2008, 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

Albany, New York
September 26, 2008

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2008 (in thousands)

(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2007)

		2008	2007
Assets			
1	Cash and cash equivalents	$ 41,279	$ 27,569
2	Collateral for securities loaned	215,854	346,804
3	Accounts receivable, net (note 2-A)	276,891	247,965
4	Contributions receivable, net (note 2-B)	666,817	495,910
5	Inventories and prepaid expenses	62,829	75,176
6	Student loans receivable, net (note 2-C)	72,284	64,931
7	Investments (note 3)	6,549,288	6,369,225
8	Land, buildings, and equipment, net (note 4)	2,616,230	2,348,223
9	Funds held in trust by others	105,904	103,550
10	Total assets	$ 10,607,376	$ 10,079,353
Liabilities			
11	Accounts payable and accrued expenses	$ 306,654	$ 227,321
12	Payable under securities loan agreements	215,854	346,804
13	Deferred revenue and other liabilities (note 7)	299,283	138,263
14	Obligations under split interest agreements	128,540	125,131
15	Deferred benefits (note 5)	425,038	374,557
16	Funds held in trust for others (note 6)	147,036	184,830
17	Bonds and notes payable (note 7)	999,170	800,107
18	Government advances for student loans	47,146	43,875
19	Total liabilities	2,568,721	2,240,888
Net assets (note 10)			
20	Unrestricted	5,129,765	5,303,889
21	Temporarily restricted	919,960	777,922
22	Permanently restricted	1,988,930	1,756,654
23	Total net assets	8,038,655	7,838,465
24	Total liabilities and net assets	$ 10,607,376	$ 10,079,353

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

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2007)

		Unrestricted	Temporarily Restricted
Operating revenues			
1	Tuition and fees	$ 669,681	$ -
2	Scholarship allowance	(194,071)	-
3	Net tuition and fees	475,610	-
4	State and federal appropriations	190,885	-
5	Grants, contracts and similar agreements		
6	Direct	390,837	-
7	Indirect cost recoveries	114,121	-
8	Contributions	87,257	130,262
9	Investment return, distributed (note 3-A)	197,027	83,958
10	Medical Physicians' Organization	451,497	-
11	Auxiliary enterprises	140,993	-
12	Educational activities and other sales and services	373,970	2,740
13	Net assets released from restrictions	146,716	(146,716)
14	Total operating revenues	2,568,913	70,244
Operating expenses (note 9)			
15	Compensation and benefits	1,746,496	-
16	Purchased services	144,594	-
17	Supplies and general	478,041	-
18	Utilities, rents and taxes	138,223	-
19	Interest expense (note 7)	27,784	-
20	Depreciation	173,775	-
21	Total operating expenses	2,708,913	-
22	Change in net assets from operating activities	(140,000)	70,244
Nonoperating revenues and (expenses)			
23	State and federal appropriations for capital acquisitions	55,580	-
24	Grants, contracts and similar agreements for capital acquisitions	2,451	-
25	Contributions for capital acquisitions, trusts and endowments	57,616	110,323
26	Investment return, net of amount distributed (note 3-A)	(128,834)	6,747
27	Change in value of split interest agreements	8,627	(5,609)
28	Pension and postretirement changes other than net periodic costs (note 5-C)	(16,481)	-
29	Other	(62,791)	29,359
30	Net asset released for capital acquisitions and reclassifications	49,708	(69,026)
31	Change in net assets from nonoperating activities	(34,124)	71,794
32	Change in net assets before effect of change in accounting principle	(174,124)	142,038
33	Effect of adoption of FASB Statement No.158 (notes 1-O, 5-C)	-	-
34	Change in net assets	(174,124)	142,038
35	Net assets, beginning of the year	5,303,889	777,922
36	Net assets, end of the year	$ 5,129,765	$ 919,960

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

Permanently Restricted	2008 Total	2007 Total	
$ -	$ 669,681	$ 633,387	1
-	(194,071)	(189,225)	2
-	475,610	444,162	3
-	190,885	173,360	4
			5
-	390,837	382,181	6
-	114,121	116,274	7
-	217,519	219,136	8
-	280,985	290,655	9
-	451,497	438,355	10
-	140,993	134,731	11
-	376,710	304,101	12
-	-	-	13
-	2,639,157	2,502,955	14
-	1,746,496	1,620,037	15
-	144,594	126,488	16
-	478,041	425,987	17
-	138,223	120,853	18
-	27,784	30,509	19
-	173,775	147,639	20
-	2,708,913	2,471,513	21
-	(69,756)	31,442	22
-	55,580	25,220	23
-	2,451	6,805	24
196,751	364,690	321,414	25
12,333	(109,754)	911,461	26
3,874	6,892	12,147	27
-	(16,481)	-	28
-	(33,432)	21,754	29
19,318	-	-	30
232,276	269,946	1,298,801	31
232,276	200,190	1,330,243	32
-	-	(77,133)	33
232,276	200,190	1,253,110	34
1,756,654	7,838,465	6,585,355	35
$ 1,988,930	$ 8,038,655	$ 7,838,465	36

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2007)

		2008	2007
	Cash flows from operating activities		
1	Change in net assets	$ 200,190	$ 1,253,110
	Adjustments to reconcile change in net assets		
	to net cash provided/(used) by operating activities		
2	Contributions for capital acquisitions, trusts and endowments	(357,356)	(240,231)
3	Income for endowments and other donor restricted funds	(7,907)	(7,588)
4	Depreciation	173,775	147,639
5	Net realized and unrealized (gain)/loss on investments	(58,543)	(1,096,470)
6	Pension and postretirement changes other than net periodic costs	16,481	-
7	Effect of adoption of FASB Statement No. 158	-	77,133
8	Other adjustments	66,800	(26,022)
	Change in assets and liabilities		
9	Accounts receivable, net	(28,926)	(38,840)
10	Contributions receivable, net	(170,907)	(160,285)
11	Inventories and prepaid expenses	15,116	(13,012)
12	Accounts payable and accrued expenses	79,333	37,308
13	Deferred revenue and other liabilities	161,020	(34,207)
14	Deferred benefits	34,000	36,622
15	Government advances for student loans	3,271	18
16	Net cash provided/(used) by operating activities	126,347	(64,825)
	Cash flows from investing activities		
17	Proceeds from the sale and maturities of investments	10,123,144	8,049,830
18	Purchase of investments	(10,299,858)	(8,036,595)
19	Acquisition of land, buildings, and equipment (net)	(456,933)	(406,155)
20	Student loans granted	(13,692)	(15,725)
21	Student loans repaid	9,835	14,466
22	Change in funds held in trust for others	(37,794)	91,426
23	Net cash used by investing activities	(675,298)	(302,753)
	Cash flows from financing activities		
	Contributions restricted to		
24	Investment in endowments	234,032	101,531
25	Investment in physical plant	110,120	116,213
26	Investment subject to living trust agreements	13,204	22,487
27	Income for endowments and other donor restricted funds	7,907	7,588
28	Principal payments of bonds and notes payable	(87,316)	(117,936)
29	Proceeds from issuance of bonds and notes payable	286,428	215,751
30	Bond issuance costs incurred	(2,769)	(3,324)
31	Change in obligations under living trust agreements	1,055	29,748
32	Net cash provided by financing activities	562,661	372,058
33	Net change in cash and cash equivalents	13,710	4,480
34	Cash and cash equivalents, beginning of year	27,569	23,089
35	Cash and cash equivalents, end of year	$ 41,279	$ 27,569
	Supplemental disclosure of cash flow information		
36	Cash paid for interest	$ 38,142	$ 33,682

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 ("the 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 (GAAP), and are presented in accordance with the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Not-for-Profit Organizations. The standards for 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. GAAP 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 values.

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). Expiration of donor restrictions is reported in the consolidated statement of activities as a reclassification from temporarily restricted net assets to unrestricted net assets on the net assets released from restrictions line.

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.

The consolidated statement of activities presents the changes in net assets of the University from both operating and nonoperating activities. Revenues and expenses that relate to carrying out the University's educational, research, and public service missions are reported as operating activities. Operating revenues include investment income and appreciation utilized to fund current operations, the largest portion of which is the distribution of endowment return as determined by the University's spending policy. The University reports as nonoperating activities 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 amounts in the consolidated financial statements and accompanying notes are presented, unless otherwise indicated, in thousands.

C. Cash and Cash Equivalents

The University classifies any instrument that has an original maturity term of ninety days or less as a cash equivalent. The carrying amount of cash equivalents approximates fair value because of their short terms of maturity.

D. Collateral for Securities Loaned

The University has an agreement with its investment custodian to lend University securities to approved brokers 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 categories of net assets in the period received. A pledge is recorded at present value of estimated future cash flows, based on an appropriate discount rate at the time of the contribution. Amortization of this discount in subsequent years is included in contribution revenue. A contribution of assets other than cash is recorded at its estimated fair value on the date of the contribution. 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.

Temporarily restricted net assets include contributions to a consolidated organization that maintains a donor-advised fund for which the donors will make recommendations to the fund's trustees regarding distributions to the University or other charitable organizations.

F. Investments

The University's investments are recorded in the consolidated financial statements at fair value. The values of publicly traded securities are based on quoted market prices and exchange rates, if applicable. The fair value of nonmarketable securities is based on valuations 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 exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers, and believes the carrying amount of these assets 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 their 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 other 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 in the consolidated statement of financial position, and the change in fair value is recorded as other nonoperating revenues and expenses in the consolidated statement of activities.

H. Land, Buildings, and Equipment

Land, buildings, and equipment are stated in the consolidated statement of financial position 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 life of the asset, 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 and are reflected, net of accumulated depreciation, in the consolidated statement of financial position. A collection received as a gift is recorded at fair value as an increase in net assets in the year in which it 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 to 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 the 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 terms of the agreements. 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. In addition to conducting instructional and research activities, physician members generate clinical practice income from their professional services to patients. Also reflected as University revenues are Medical Physicians' Organization fees. 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 information in summary form, 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

Effective for the fiscal year ended June 30, 2008, the University adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48: *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. It prescribes a threshold of "more likely than not" for recognition of tax positions taken in a tax return, and provides related guidance on measurement, classification, interest and penalties, and disclosure. FIN 48 had no material impact on the University's results of operations and financial position.

In the fiscal year ended June 30, 2007, the University adopted Statement of Financial Accounting Standards No. 158: *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans* (FAS 158), which required recognition of the funded status of these employee benefit plans in the consolidated statement of financial position as either a prepaid expense or an accrued liability. The adjustment necessary to comply with FAS 158 was presented as a separate line in unrestricted net assets and not as income or expense in 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. In subsequent years, the University will continue to record changes in the funded status as pension and postretirement changes other than net periodic costs in the consolidated statement of activities.

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 generally 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

	2008	2007
Grants and contracts	$ 55,828	$ 49,996
Patients (net of contractual allowances)	71,619	75,512
Student accounts	5,764	5,766
Other	158,843	133,146
Subtotal	$ 292,054	$ 264,420
Less: allowance for doubtful accounts	(15,163)	(16,455)
Net accounts receivable	$ 276,891	$ 247,965

The patient accounts receivable for medical services was comprised of the following at June 30, 2008 and 2007, respectively: commercial third parties 53 percent and 54 percent; federal/state government 12 percent and 14 percent; and patients 35 percent and 32 percent. Other accounts receivable include receivables 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

	2008	2007
Less than one year	$ 212,667	$ 147,653
Between one and five years	315,095	243,849
More than five years	474,898	448,769
Gross contributions receivable	$ 1,002,660	$ 840,271
Less: unamortized discount	(300,748)	(318,260)
Less: allowance for uncollectible amounts	(35,095)	(26,101)
Net contributions receivable	$ 666,817	$ 495,910

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

EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE

	2008	2007
Support of University operations	$ 297,287	$ 239,604
Capital purposes	153,352	117,383
Endowments and similar funds	216,178	138,923
Net contributions receivable	$ 666,817	$ 495,910

At June 30, 2008 and 2007, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions, were approximately $165,458 and $160,273, 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

	2008	2007
Federal revolving loans	$ 48,962	$ 48,225
Institutional loans	29,618	26,498
Gross student loans receivable	$ 78,580	$ 74,723
Less: allowance for doubtful accounts	(6,296)	(9,792)
Net student loans receivable	$ 72,284	$ 64,931

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.

Student loans are often subject to unique restrictions and conditions and, therefore, it is not feasible to determine their fair values.

3. INVESTMENTS

A. General Information

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

INVESTMENTS AT FAIR VALUE

	2008	2007
Cash and cash equivalents	$ 267,836	$ 129,614
Domestic equities	699,794	834,060
Foreign equities	911,636	1,107,758
Absolute return	625,452	572,721
Hedged equities	1,252,730	1,306,924
Fixed income	898,489	749,574
Private equities	902,677	751,801
Real assets	956,468	885,194
Other	34,206	31,579
Total	$ 6,549,288	$ 6,369,225

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, 2008 and 2007, the University had commitments of $1,362,308 and $1,066,802, 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

	2008	2007
Working capital	$ 32,704	$ 3,807
Intermediate-term (PBIF)	571,174	609,353
Long-term investment pool (LTIP)	5,378,096	5,197,503
Separately invested portfolio	411,614	478,902
Pooled life income funds	13,909	16,935
Other	141,791	62,725
Total	$ 6,549,288	$ 6,369,225

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

SUMMARY OF INVESTMENT RETURN

	2008	2007
Interest and dividends, net of investment fees	$ 112,688	$ 105,646
Net realized gain/(loss)	415,142	394,161
Net unrealized gain/(loss)	(356,599)	702,309
Total investment return	$ 171,231	$ 1,202,116
Investment return, distributed	$ 280,985	$ 290,655
Investment return, undistributed	(109,754)	911,461
Total investment return	$ 171,231	$ 1,202,116

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 of this vehicle 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, 2008 and 2007, the fair values per unit were $65.37 and $66.62, respectively. The total return on the University's long-term investments, of which the LTIP is the major component, was 2.7 percent for the fiscal year ended June 30, 2008. The changes in the fair value and cost of the LTIP and information about its participating units as of June 30, 2008 and 2007 are as follows:

SUMMARY INFORMATION - LONG-TERM INVESTMENT POOL

	Fair value	Cost	Appreciation	Fair value per unit	Number of units
End of year	$ 5,378,096	$ 4,267,499	$ 1,110,597	$ 65.37	82,269,929
Beginning of year	$ 5,197,503	$ 3,800,321	$ 1,397,182	$ 66.62	78,016,232
Unrealized net gain/(loss) for year			$ (286,585)		
Realized net gain/(loss) for year			$ 360,501		
Net gain/(loss) for year			$ 73,916		

The University has a total distribution policy. Under this policy, a distribution is provided from the pool, independent of the cash yield and investment returns in a given year. This insulates investment policy from budgetary pressures and insulates the distribution from fluctuations in financial 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 fiscal year ended June 30, 2008, distributions of investment payout to participating funds totaled $213,048 ($2.66 per unit) of which $191,724 was paid out for the University's operations, with the balance in the amount of $21,324 either returned to principal or distributed to funds held for others. The distribution for the fiscal year ended June 30, 2008 was comprised of $46,997 in net investment income and $166,051 paid from accumulated gains. For the fiscal year ended June 30, 2007, the investment payout was $185,508 ($2.42 per unit), and was comprised of $44,726 in net investment income and $140,782 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 principals become available for University purposes, which may or may not have been restricted by the donors.

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 $122,599 and $37,480 as of June 30, 2008 and 2007, respectively. The amount of bond proceeds not yet expended included in the total reserves at DASNY are $107,653 and $21,550 as of June 30, 2008 and 2007, 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 of a manager's appointment. The derivatives are used to adjust fixed income durations 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 those counterparties with strong credit ratings for these derivatives. For the fiscal years ended June 30, 2008 and 2007, the University recorded unrealized gains of $7,676 and $2,385, respectively, on derivative holdings.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are detailed as follows:

LAND, BUILDINGS, AND EQUIPMENT

	Book value at June 30, 2007	Additions	Disposals and closed projects	Book value at June 30, 2008
Land, buildings, and equipment	$ 2,616,202	$ 320,779	$ (34,768)	$ 2,902,213
Furniture, equipment, books, and collections	886,520	86,406	(39,414)	933,512
Construction in progress	351,592	453,257	(396,416)	408,433
Total before accumulated depreciation	$ 3,854,314	$ 860,442	$ (470,598)	$ 4,244,158
Accumulated depreciation	(1,506,091)			(1,627,928)
Net land, buildings, and equipment	$ 2,348,223			$ 2,616,230

Certain properties to which the University does not have title are included in physical assets at net book values as follows: (1) land, buildings, and equipment of the Contract Colleges aggregating $421,439 and $368,215 at June 30, 2008 and 2007, respectively, the acquisition cost of which was borne primarily by New York State and (2) land, buildings, and equipment for which titles rest with government and corporate agencies aggregating $17,296 and $17,293 at June 30, 2008 and 2007, respectively.

5. DEFERRED BENEFITS

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

SUMMARY OF DEFERRED BENEFITS

	2008	2007
Postemployment benefits	$ 21,334	$ 21,765
Pension and other postretirement benefits	239,950	212,066
Other deferred benefits	163,754	140,726
Total deferred benefits	$ 425,038	$ 374,557

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 fiscal years ended June 30, 2008 and 2007 amounted to $76,873 and $72,771, 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 were covered by the Cornell University Retirement Plan for Non-Exempt Employees of the Endowed Colleges at Ithaca (NERP), a defined benefit plan. The Board of Trustees voted to terminate this frozen plan effective December 31, 2006, with all surplus assets inuring to the plan participants. As of June 30, 2008, the majority of benefits have been paid out to retirees, former employees and active employees with a vested benefit in NERP.

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
In the fiscal year ended June 30, 2007, the University adopted FAS 158, which required employers to recognize the over-funded or under-funded status of defined benefit pension and postretirement plans in their statements of financial position. This resulted in an increase in deferred benefits liability of $77,133. Adustments in subsequent years will be recorded as pension and postretirement changes other than net periodic costs in the consolidated statement of activities.

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	
	2008	2007	2008	2007
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 53,110	$ 64,846	$ 127,921	$ 101,552
Actual return on plan assets	(3,930)	7,801	(6,212)	21,276
Employer contribution	3,000	3,800	5,336	5,093
Benefits paid	(1,725)	(4,056)	-	-
Settlements	(9,736)	(19,281)	-	-
Fair value of plan assets at end of year	$ 40,719	$ 53,110	$ 127,045	$ 127,921
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 59,919	$ 67,721	$ 326,096	$ 314,733
Service cost (benefits earned during the period)	3,420	3,212	13,528	13,660
Interest cost	3,094	4,028	18,841	18,734
Plan amendments	3,132	-	-	-
Actuarial (gain)/loss	(727)	8,295	1,942	(11,435)
Settlements	(9,736)	(19,281)	-	-
Benefits paid	(1,725)	(4,056)	(10,272)	(9,596)
Projected benefit obligation at end of year	$ 57,377	$ 59,919	$ 350,135	$ 326,096
FUNDED STATUS	$ (16,658)	$ (6,809)	$ (223,090)	$ (198,175)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	$ (16,658)	$ (6,809)	$ (223,090)	$ (198,175)
AMOUNTS RECORDED IN UNRESTRICTED NET ASSETS NOT YET AMORTIZED AS COMPONENTS OF NET PERIODIC BENEFIT COST				
Net transition obligation	$ -	$ -	$ 18,221	$ 21,866
Prior service cost	-	-	510	639
Net actuarial (gain)/loss	8,681	5,992	66,202	48,636
Amount recognized as reduction in unrestricted net assets	$ 8,681	$ 5,992	$ 84,933	$ 71,141

The accumulated benefit obligation for the pension plans was $44,061 and $46,737 at June 30, 2008 and 2007, respectively. 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.

D. Net Periodic Benefit Cost

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

NET PERIODIC BENEFIT COST

	Pension benefits		Other postretirement	
	2008	2007	2008	2007
Service cost (benefits earned during the period)	$ 3,420	$ 3,212	$ 13,528	$ 13,660
Interest cost	3,094	4,028	18,841	18,734
Expected return on plan assets	(3,776)	(4,923)	(9,906)	(8,309)
Amortization of initial transition obligation	-	-	3,644	3,644
Amortization of prior service cost	3,133	-	129	264
Amortization of net (gain)/loss	3,593	612	495	2,365
Settlement (gain)/loss	696	10,685	-	-
Net periodic benefit cost	$ 10,160	$ 13,614	$ 26,731	$ 30,358

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, 2009 are estimated as follows:

ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST

	Pension benefits	Other postretirement
Transition obligation	$ -	$ 3,644
Prior service cost	-	129
Net actuarial (gain)/loss	282	2,620
Total	$ 282	$ 6,393

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		Other postretirement	
	2008	**2007**	**2008**	**2007**
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%	6.00%	6.00%	6.00%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	6.10%	6.10%		
ASSUMED HEALTH CARE COST TREND RATES				
Health care cost trend rate assumed for next year	n/a	n/a	8.00%	8.00%
Ultimate trend rate	n/a	n/a	5.00%	5.00%
Years to reach ultimate trend rate	n/a	n/a	6	3

The health care cost trend rate assumption has a significant effect on the amounts reported for other postretirement (health care) plans. Increasing the health care cost trend rate by 1 percent in each future year would increase the benefit obligation by $56,892 and the annual service and interest cost by $6,629. Decreasing the health care cost trend rate by 1 percent in each future year would decrease the benefit obligation by $46,023 and the annual service and interest cost by $5,213.

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, 5.75 percent on debt securities, and 8.25 percent on real estate.

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

SUMMARY OF PLAN ASSETS

	Target allocation	Pension benefits 2008	Pension benefits 2007	Other postretirement 2008	Other postretirement 2007
PERCENTAGE OF PLAN ASSETS					
Equity securities	39-85%	59.7%	52.0%	69.7%	70.1%
Debt securities	15-55%	36.7%	44.6%	30.3%	29.9%
Real estate	0-5%	3.6%	3.4%	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			
2009	$ 2,500	$ 5,589	n/a
FUTURE BENEFIT PAYMENTS			
2009	$ 3,024	$ 11,181	$ 1,502
2010	2,918	12,218	1,665
2011	3,588	13,450	1,820
2012	3,599	14,539	1,988
2013	3,540	15,683	2,178
2014-2018	23,326	98,741	14,244

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 amounts reimbursed to the state during the fiscal years ended June 30, 2008 and 2007, were $18,459 and $17,488, respectively, and were included in operating expenses.

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 Weill Cornell Medical Center of the New York-Presbyterian Hospital, is the major external organization invested in the LTIP with assets having market values of $189,342 and $186,461 at June 30, 2008 and 2007, respectively. Of these investments, a portion of the future income stream has been directed in perpetuity to benefit the Medical College. The present values of this income stream, calculated to be $75,966 and $74,141 at June 30, 2008 and 2007, respectively, are recorded as reductions in 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

	2008	2007	Interest rates	Final maturity
Dormitory Authority of the State of New York (DASNY)				
Revenue Bond Series				
1990B-Variable rate/daily	$ 56,700	$ 57,300	0.55 to 3.96	2025
2000A-Variable rate/weekly	56,620	58,320	2.99*	2029
2000B-Variable rate/weekly	74,835	76,765	4.63*	2030
2004-Variable rate/weekly	88,175	90,150	3.51*	2033
2006-Fixed rate	231,160	239,750	4.00 to 5.00	2035
2008B&C-Variable rate/daily	130,000	-	0.35 to 2.50	2037
1995 Student loan bond capital appreciation	-	6,339	5.90 to 6.15	2008
Tax-exempt commercial paper	149,875	89,005	1.00 to 3.72*	2037
Bond Series 1987B-Fixed rate	8,825	10,370	11.11	2012
Taxable commercial paper	60,911	86,979	2.25 to 5.33	-
Industrial Development Agency				
2000-Fixed rate	3,330	4,335	5.10 to 5.25	2011
2002A-Variable rate/weekly	42,530	42,710	4.52*	2030
2002B-Variable rate/weekly	15,390	15,390	4.33*	2015
2008A-Variable rate/daily	70,000	-	0.55 to 3.40	2037
Student Loan Marketing Association-Fixed rate	5,030	5,340	5.75 to 6.50	2019
Urban Development Corporation	2,625	2,750	-	2029
Capitalized leases				
312 College Ave	-	11,296	various	2008
Other	3,164	3,308	various	2009-2029
Total bonds and notes payable	$ 999,170	$ 800,107		

** Rates presented are the swap interest rates as noted in the following Summary of Interest Rate Swaps table.*

The University's bonds and notes payable had carrying amounts of $999,170 and $800,107 at June 30, 2008 and 2007, respectively, compared to estimated fair values of approximately $1,001,739 and $808,513 at June 30, 2008 and 2007, respectively. Estimated fair value of bonds is based on quoted market prices for the same or similar issues. The market prices utilized reflect the amounts a third party would pay to purchase the bonds, and not an additional liability to the University. Interest expense during the fiscal year ended June 30, 2008 was $27,784, of which $25,926 was related to the bonds and notes payable displayed in the table above. During the fiscal year ended June 30, 2007, interest expense was $30,509, of which $28,890 was related to the bonds and notes payable. The University capitalized interest on self-constructed assets, such as buildings, in the amount of $9,698 and $4,218 for the fiscal years ended June 30, 2008 and 2007, 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 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 eleven interest rate swap agreements to exchange variable rate debt for fixed rate obligations 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 six forward-starting swaps were negotiated in the fiscal year ended June 30, 2008. Under four agreements in effect at June 30, 2008, the counterparty pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association (SIFMA) index, and under seven other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month London Interbank Offered Rates (LIBOR).

At June 30, 2008 and 2007, the total fair value was ($34,504) for eleven swap agreements and $20,691 for eight swap agreements, respectively. 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
$ 15,390	4.33%		July 1, 2010	SIFMA
106,620	2.99%		October 1, 2012	SIFMA
42,530	4.52%		July 1, 2030	SIFMA
74,835	4.63%		July 1, 2030	LIBOR
88,175	3.51%		July 1, 2033	LIBOR
200,000	3.84%	July 1, 2008	July 1, 2037	SIFMA
100,000	3.55%	July 1, 2009	July 1, 2036	LIBOR
200,000	3.45%	July 1, 2010	July 1, 2039	LIBOR
275,000	3.65%	July 1, 2010	July 1, 2040	LIBOR
200,000	3.48%	July 1, 2012	July 1, 2041	LIBOR
200,000	3.77%	July 1, 2014	July 1, 2044	LIBOR

During the fiscal year ended June 30, 2008, the University issued $70,000 of variable rate bonds to finance the central heating plant project, and $130,000 of variable rate bonds to refund tax-exempt commercial paper. In addition, the University reoffered the Series 2004 bonds. There was no change in the underlying bonds other than from an auction rate to a variable rate mode.

The University continues to issue both tax-exempt and taxable commercial paper. Tax-exempt commercial paper is used to finance capital projects and equipment purchases for the Ithaca and Medical College campuses. Taxable commercial paper is also used for these purposes, as well as to finance short-term working capital needs. The maximum amount outstanding at any one time under each program is $200,000.

The University paid $3,252 in the fiscal year ended June 30, 2008 to defease the 1995 student loan capital appreciation bonds. In addition, the university terminated its capitalized lease.

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
2009	$ 22,035	$ 38,112	$ 60,147
2010	22,556	37,091	59,647
2011	26,761	36,033	62,794
2012	27,543	34,651	62,194
2013	26,538	32,996	59,534
Thereafter	873,737	432,604	1,306,341
Total	$ 999,170	$ 611,487	$ 1,610,657

The University records its working capital line of credit as other liabilities in the consolidated statement of financial position. During the fiscal year ended June 30, 2008, the University added an additional working capital line of credit with Bank of America for $100,000 to support short-term cash flow needs, bringing the maximum amount outstanding at any one time for both lines of credit to $200,000. At June 30, 2008, the interest rates were 2.58 percent and 3.00 percent for the University's two lines of credit. At June 30, 2007, the University had one line of credit with an interest rate of 6.25 percent. The two lines of credit have annual expiration dates of February 20 and December 31. As of June 30, 2008 and 2007, $164,500 and $30,500, respectively, were borrowed against the lines of credit.

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 expenses were $18,058 and $18,011 for the fiscal years ended June 30, 2008 and 2007, 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
2009	$ 20,281
2010	16,526
2011	15,436
2012	13,222
2013	11,495
Thereafter	69,916
Total minimum operating lease payments	$ 146,876

9. FUNCTIONAL EXPENSES AND STUDENT AID

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

FUNCTIONAL EXPENSES

	2008	2007
Instruction	$ 597,606	$ 555,434
Research	511,158	502,661
Public service	114,143	108,847
Academic support	267,222	236,784
Student services	119,858	111,279
Medical services	474,471	412,270
Institutional support	414,747	360,426
Enterprises and subsidiaries	209,708	183,812
Total expenses	$ 2,708,913	$ 2,471,513

The expenses for operations and maintenance of facilities, depreciation, and interest are allocated to functional categories based on square footage. The amounts allocated for operations and maintenance were approximately $154,430 and $143,344 for the fiscal years ended June 30, 2008 and 2007, 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 scholarship allowance which reduces tuition revenue. Total financial assistance amounts classified as instruction expense were $24,106 and $23,401 for the fiscal years ended June 30, 2008 and 2007, respectively.

10. NET ASSETS

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

SUMMARY OF NET ASSETS

	Unrestricted	Temporarily restricted	Permanently restricted	2008 Total	2007 Total
Endowment					
True endowment	$ 1,979,508	$ -	$ 1,555,709	$ 3,535,217	$ 3,460,881
Funds functioning as endowment (FFE)	1,538,967	173,825	-	1,712,792	1,652,213
Total true endowment and FFE	$ 3,518,475	$ 173,825	$ 1,555,709	$ 5,248,009	$ 5,113,094
Funds held by others, perpetual	-	-	137,473	137,473	134,003
Total University endowment	$ 3,518,475	$ 173,825	$ 1,693,182	$ 5,385,482	$ 5,247,097
Other Net Assets					
Operations	(170,458)	134,756	-	(35,702)	165,396
Student loans	8,725	-	33,516	42,241	37,775
Facilities and equipment	1,773,023	48,136	-	1,821,159	1,739,438
Living trust funds	-	68,207	46,054	114,261	109,161
Funds held by others, other than perpetual	-	44,397	-	44,397	43,688
Contributions receivable, net	-	450,639	216,178	666,817	495,910
Total net assets	$ 5,129,765	$ 919,960	$ 1,988,930	$ 8,038,655	$ 7,838,465

Unrestricted net asset balances for operations are primarily affected by operating activities and strategic decisions to invest expendable balances in funds functioning as endowment and capital projects.

Of the endowment assets held at the University, 98 percent and 97 percent were invested in the LTIP at June 30, 2008 and 2007, respectively. At June 30, 2008, 257 of 5,581 true endowment funds invested in the LTIP, with a book value of $84,435, had fair values below book values by a total of $2,287. The University holds significant unrestricted appreciation on endowments to offset these temporary decreases in value. The University has maintained these true endowment funds at their historical book value.

Changes in the endowment net assets, exclusive of funds held by others, for the fiscal years ended June 30 are presented below:

SUMMARY OF ENDOWMENT ACTIVITY

	Unrestricted	Temporarily restricted	Permanently restricted	2008 Total	2007 Total
True endowment and FFE beginning of year	$ 3,576,523	$ 120,053	$ 1,416,518	$ 5,113,094	$ 4,152,207
Investment return					
Net investment income	27,489	17,338	2,376	47,203	44,352
Net realized and unrealized gains	1,741	66,743	4,534	73,018	979,166
Total investment return	$ 29,230	$ 84,081	$ 6,910	$ 120,221	$ 1,023,518
New gifts	6,950	42,558	109,243	158,751	87,142
Net transfers to/(from) FFE	20,457	(9,097)	-	11,360	11,122
Distribution of endowment return to other funds	(115,072)	(76,651)	(2,763)	(194,486)	(170,134)
Other changes	(5,091)	(2,464)	6,475	(1,080)	5,210
Reclassifications	5,478	15,345	19,326	40,149	4,029
Total true endowment and FFE end of year	$ 3,518,475	$ 173,825	$ 1,555,709	$ 5,248,009	$ 5,113,094

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 foreseen, 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.

ADMINISTRATION

JULY 1, 2008

UNIVERSITY ADMINISTRATION

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JULY 1, 2008

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