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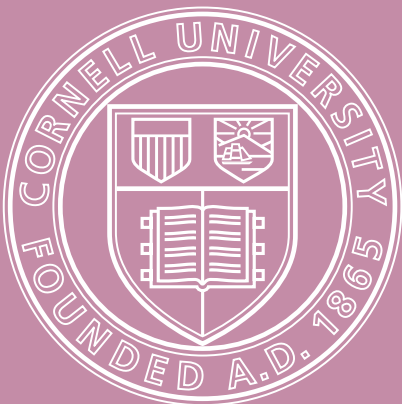
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Financial Plan

Year-End Variance Report

November 2005



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INTRODUCTION

To the Cornell University Board of Trustees:

This document presents a variance analysis of the university's 2004-05 financial plan, which was approved by the Board of Trustees in May 2004. Cornell ended the fiscal year on June 30, 2005, having exceeded its operating revenue projections and enjoyed a positive net from operations. There are several observations to be made about the fiscal year that just closed.

- Several years ago, Cornell adopted a freshman enrollment target of 3,050, which we believe results in an optimal number of about 13,000 on-campus undergraduates and allows us to accommodate all freshmen in North Campus housing. We enrolled 3,054 first-time freshmen in the fall of 2004, 4 over target. On-campus undergraduate enrollment averaged 12,919 for the academic year, reasonably close to our 13,000 goal. Graduate and professional enrollments at the Ithaca campus were down slightly from 2003-04 levels.
- Support for sponsored research increased 6.4 percent in 2004-05. We are undertaking a number of significant initiatives to support research and scholarship across the university that should foster continued external support of this key component of our mission.
- The Physician Organization's overall revenues of \$364.5 million were greater than planned and grew 12.5 percent from the prior year. These revenues remain a vital source of support for the Weill Medical College.
- The university raised \$361.6 million in cash gifts in 2004-05, a 6.3 percent decrease from the prior-year amount. Cornell was number four among Ivy League and peer institutions in total giving and number three in gifts from individuals. We remain indebted to our alumni and other benefactors for their continued support.
- Cornell's investments provided \$196.9 million in funding for the operating plan in 2004-05, representing 8.3 percent of total revenues. Most of this support came from the Long Term Investment Pool, which contains 95 percent of the endowment. The fair value of our overall investment portfolio increased by 10.6 percent during the fiscal year, driven primarily by the strong performance of long-term investments.
- Academic programs (schools, colleges, centers, programs, and libraries) represented 72 percent

of all expenditures, accounting for \$1.658 billion in cost. Academic program expenditures grew 7.3 percent from their 2003-04 levels, driven largely by salary and benefits costs.

- Nonacademic programs (student services, administrative and support, physical plant) represented 21.9 percent of all expenditures, accounting for \$503.3 million in cost. This category experienced an 11.3 percent increase from 2003-04. Forty-five percent of this growth was centered in the Medical College and due partially to the initiative to create the Weill Cornell Medical College in Qatar. Also, we increased spending on administrative systems, government relations and fund-raising, and external investment management.
- Centrally recorded financial aid, which accounted for the remaining 6.1 percent, or \$141.5 million, in cost, grew 5 percent from 2003-04.
- Cornell recorded a \$13.4 million net from operations (representing 0.6 percent of revenues), which was added to operating fund balances.

A variance report for the Ithaca campus portion of our capital plan is presented for the first time as an addition to this booklet. (See pages 12 and 13.) There was significant progress on the West Campus Residential Initiative, including the Alice Cook and Carl Becker Houses and the start of the Hans Bethe House and the Noyes Community and Recreation Center. Additions to the Africana Studies and Research Center and Schoellkopf Hall were completed. We also started construction on two significant research-related facilities: the East Campus Research Facility and the Life Sciences Technology Building.

In addition to detailed budget variance reports for the university's two primary financial divisions, we have included reports on five key financial issues—investments, research, government appropriations, financial aid, and gifts—that have a significant impact on Cornell's budgets. We appreciate your thoughts and comments on this report and stand ready to answer your questions about Cornell's finances.



C. Biddy Martin
Provost

OPERATING PLAN REPORT – HIGHLIGHTS

2004-05 OPERATING PLAN

The university's 2004-05 composite operating plan was predicated on revenues of \$2.314 billion and expenditures of \$2.264 billion.

Revenues

Revenues totaled \$2.388 billion, an increase of 3.2 percent from the plan and 7.3 percent greater than recorded in 2003-04. There were several significant revenue changes that resulted in positive variances.

- **Distributions** from **investment** sources exceeded the plan by \$13.1 million due to a greater than expected invested principal and investment management expense recovery.
- The **direct and indirect (F&A) costs of sponsored programs** were \$22.5 million more than planned, reflecting growth in the contract and medical colleges and endowed Ithaca research centers.
- Revenues associated with the **Physician Organization (PO)** exceeded the plan by \$29.5 million due to Strategic Plan clinical initiatives coupled with the addition of clinical faculty in existing areas.
- Income from **other sources**, which includes sales and services in academic units such as the Hospital for Animals and funding from the Qatar Foundation, were \$30 million more than planned.

Partially offsetting these positive variances were declines in three areas:

- **Tuition and fees** were \$3.2 million less than budgeted due to slight decreases in upper-class undergraduate and overall graduate enrollments.
- The combination of **unrestricted and restricted gifts** were \$23.8 million less than planned, reflecting primarily a decrease in the anticipated level of Weill Medical College restricted gifts.
- **Federal appropriations** were \$2.6 million lower than originally expected.

Transfers In from Other Funds

A total of \$24.1 million was transferred from **funds functioning as endowment** to operating budgets. Most of these funds supported capital construction projects and debt service. A total of \$4.8 million was transferred from **plant funds**, most of which was used to pay for renovations, repairs, and operations.

Expenditures

Expenditures totaled \$2.303 billion, an increase of 1.7 percent from the plan and 8 percent greater than in 2003-04. Within this overall change in the plan there were major positive and negative variances.

- **College** expenditures were \$32.3 million more than planned. Significant positive variances occurred in the Weill Medical College (\$30.1 million), the College Arts and Sciences (\$7.2 million), the School of Hotel Administration (\$3.1 million), and the College of Agriculture and Life Sciences (\$3 million). Physician Organization and New York-Presbyterian Hospital activities in the Medical College and research growth in Arts and Sciences were primary drivers in this variance, offset partially by decreases from the plan in several of the other colleges—most notably, research activity in the College of Engineering and faculty start-up costs in the College of Veterinary Medicine.
- **Research center** expenditures were \$8.8 million more than budgeted as a result of growth in sponsored programs funding.
- **Administrative and support** costs were within 0.4 percent of the plan, but reflected significant (and offsetting) deviations between the Ithaca campus (with growth in administrative system, investment management, public communications, and alumni and development costs) and Weill Medical College (with decreases in administrative and support costs for the Medical College in Qatar).
- Current fund **physical plant** expenditures were \$7.3 million less than budgeted as some facility improvements that were planned in the operating budget were instead recorded in plant funds, and were reflected as transfers. (See below.)

Transfers Out to Other Funds

A total of \$27 million was transferred from current funds to **funds functioning as endowment**. Also, \$77.3 million was transferred to **plant funds** for renovation and maintenance projects.

Net from Operations

The year ended with a **net from operations** of \$13.4 million (\$4.4 million less than planned), which was added to **current fund balances** in both divisions.

OPERATING PLAN REPORT – HIGHLIGHTS

University Operating Plan – Summary						
(dollars in thousands)						
	02-03	03-04	04-05	04-05	Change from	
Resources	Actual	Actual	Plan	Actual	04-05	03-04
					Plan	Actual
1. Tuition & Fees	\$491,006	\$531,259	\$561,311	\$558,098	(\$3,213)	5.1%
2. Investment Distributions	184,666	200,469	183,771	196,904	13,133	(1.8%)
3. Unrestricted Gifts	52,133	54,828	37,063	48,287	11,224	(11.9%)
4. Restricted Gifts	131,046	132,291	161,911	126,928	(34,983)	(4.1%)
5. Sponsored Programs (direct)	354,504	357,927	379,856	399,277	19,421	11.6%
6. Sponsored Programs (F&A)	102,654	110,163	111,563	114,624	3,061	4.0%
7. Institutional Allowances	17,680	19,154	19,937	20,653	716	7.8%
8. State Appropriations	145,885	140,350	134,924	138,892	3,968	(1.0%)
9. Federal Appropriations	18,770	17,048	18,899	16,300	(2,599)	(4.4%)
10. Physician Organization (PO)	281,356	323,968	334,975	364,451	29,476	12.5%
11. NYPH (purchased services)	60,475	63,106	71,600	76,478	4,878	21.2%
12. Enterprise Sales & Services	120,556	121,280	127,607	126,231	(1,376)	4.1%
13. Other Sources	<u>133,614</u>	<u>152,469</u>	<u>170,524</u>	<u>200,560</u>	<u>30,036</u>	<u>31.5%</u>
14. Subtotal In-Year Revenues	2,094,345	2,224,312	2,313,941	2,387,683	73,742	7.3%
15. Transfers From Endowment	19,883	34,674	24,825	28,091	3,266	
16. Transfers From Plant	<u>2,632</u>	<u>4,620</u>	<u>11,830</u>	<u>4,791</u>	<u>(7,039)</u>	
17. Subtotal Transfers In	22,515	39,294	36,655	32,882	(3,773)	
18. Total Resources	2,116,860	2,263,606	2,350,596	2,420,565	69,969	6.9%
Uses of Resources						
19. Agriculture & Life Sciences	203,741	208,245	215,733	218,716	2,983	5.0%
20. Architecture, Art, & Planning	15,445	14,802	15,974	16,716	742	12.9%
21. Arts & Sciences	146,492	150,969	153,307	160,524	7,217	6.3%
22. Engineering	104,711	112,927	119,028	113,166	(5,862)	0.2%
23. Hotel Administration	39,751	41,415	42,753	45,901	3,148	10.8%
24. Human Ecology	44,546	41,202	45,818	45,651	(167)	10.8%
25. Industrial & Labor Relations	37,609	37,887	39,278	39,299	21	3.7%
26. Johnson School	37,427	37,168	38,514	38,272	(242)	3.0%
27. Law School	22,545	21,744	24,085	22,085	(2,000)	1.6%
28. Medical College (academic/clinical)	548,780	595,616	626,074	656,218	30,144	10.2%
29. Veterinary Medicine	82,221	83,737	93,828	90,119	(3,709)	7.6%
30. Research Centers	86,103	90,206	80,156	88,939	8,783	(1.4%)
31. Other Academic Programs	101,998	110,065	117,733	122,573	4,840	11.4%
32. Centrally Recorded Financial Aid	118,851	134,775	143,700	141,486	(2,214)	5.0%
33. Student Services	94,882	100,829	106,356	106,787	431	5.9%
34. Administrative & Support	164,341	194,707	232,401	233,363	962	19.9%
35. Physical Plant	132,379	148,310	162,136	154,844	(7,292)	4.4%
36. All Other	<u>5,417</u>	<u>8,117</u>	<u>7,025</u>	<u>8,266</u>	<u>1,241</u>	<u>1.8%</u>
37. Subtotal Expenditures	1,987,239	2,132,721	2,263,899	2,302,925	39,026	8.0%
38. Transfers To Endowment	41,655	59,137	6,121	26,986	20,865	
39. Transfers To Plant	<u>51,757</u>	<u>55,675</u>	<u>62,809</u>	<u>77,284</u>	<u>14,475</u>	
40. Subtotal Transfers Out	93,412	114,812	68,930	104,270	35,340	
41. Total Uses of Resources	2,080,651	2,247,533	2,332,829	2,407,195	74,366	7.1%
42. Net From Operations	36,209	16,073	17,767	13,370	(4,397)	

University Operating Plan – Divisional Detail						
(dollars in thousands)						
Resources	Ithaca	Medical	04-05	04-05	Change from	
	Campus	College	Actual	Plan	Plan to Actual	Dollars Percent
1. Tuition & Fees	\$541,466	\$16,632	\$558,098	\$561,311	(\$3,213)	(0.6%)
2. Investment Distributions	167,643	29,261	196,904	183,771	13,133	7.1%
3. Unrestricted Gifts	46,620	1,667	48,287	37,063	11,224	30.3%
4. Restricted Gifts	71,394	55,534	126,928	161,911	(34,983)	(21.6%)
5. Sponsored Programs (direct)	291,376	107,901	399,277	379,856	19,421	5.1%
6. Sponsored Programs (F&A)	72,256	42,368	114,624	111,563	3,061	2.7%
7. Institutional Allowances	33	20,620	20,653	19,937	716	3.6%
8. State Appropriations	138,713	179	138,892	134,924	3,968	2.9%
9. Federal Appropriations	16,300		16,300	18,899	(2,599)	(13.8%)
10. Physician Organization (PO)		364,451	364,451	334,975	29,476	8.8%
11. NYPH (purchased services)		76,478	76,478	71,600	4,878	6.8%
12. Enterprise Sales & Services	111,291	14,940	126,231	127,607	(1,376)	(1.1%)
13. Other Sources	<u>109,268</u>	<u>91,292</u>	<u>200,560</u>	<u>170,524</u>	<u>30,036</u>	<u>17.6%</u>
14. Subtotal In-Year Revenues	1,566,360	821,323	2,387,683	2,313,941	73,742	3.2%
15. Transfers From Endowment	28,091		28,091	24,825	3,266	
16. Transfers From Plant	<u>4,791</u>		<u>4,791</u>	<u>11,830</u>	<u>(7,039)</u>	
17. Subtotal Transfers In	32,882		32,882	36,655	(3,773)	
18. Total Resources	1,599,242	821,323	2,420,565	2,350,596	69,969	3.0%
Uses of Resources						
19. Agriculture & Life Sciences	218,716		218,716	215,733	2,983	1.4%
20. Architecture, Art, & Planning	16,716		16,716	15,974	742	4.6%
21. Arts & Sciences	160,524		160,524	153,307	7,217	4.7%
22. Engineering	113,166		113,166	119,028	(5,862)	(4.9%)
23. Hotel Administration	45,901		45,901	42,753	3,148	7.4%
24. Human Ecology	45,651		45,651	45,818	(167)	(0.4%)
25. Industrial & Labor Relations	39,299		39,299	39,278	21	0.1%
26. Johnson School	38,272		38,272	38,514	(242)	(0.6%)
27. Law School	22,085		22,085	24,085	(2,000)	(8.3%)
28. Medical College (academic/clinical)		656,218	656,218	626,074	30,144	4.8%
29. Veterinary Medicine	90,119		90,119	93,828	(3,709)	(4.0%)
30. Research Centers	88,939		88,939	80,156	8,783	11.0%
31. Other Academic Programs	122,573		122,573	117,733	4,840	4.1%
32. Centrally Recorded Financial Aid	130,140	11,346	141,486	143,700	(2,214)	(1.5%)
33. Student Services	106,787		106,787	106,356	431	0.4%
34. Administrative & Support	134,660	98,703	233,363	232,401	962	0.4%
35. Physical Plant	114,490	40,354	154,844	162,136	(7,292)	(4.5%)
36. All Other	8,266		8,266	7,025	1,241	17.7%
37. Cost Redistribution	<u>(1,576)</u>	<u>1,576</u>				
38. Subtotal Expenditures	1,494,728	808,197	2,302,925	2,263,899	39,026	1.7%
39. Transfers To Endowment	26,986		26,986	6,121	20,865	
40. Transfers To Plant	<u>75,126</u>	<u>2,158</u>	<u>77,284</u>	<u>62,809</u>	<u>14,475</u>	
41. Subtotal Transfers Out	102,112	2,158	104,270	68,930	35,340	
42. Total Uses of Resources	1,596,840	810,355	2,407,195	2,332,829	74,366	3.2%
43. Net From Operations	2,402	10,968	13,370	17,767	(4,397)	

OPERATING PLAN REPORT – DETAILS

ITHACA CAMPUS

Revenues and Transfers In

Revenues for 2004-05 totaled \$1.566 billion, an increase of \$56 million, or 3.7 percent, from the plan and 4.5 percent higher than in 2003-04.

- **Tuition and fee** revenues were 0.5 percent less than planned due to slight decreases in upper-class undergraduate and overall graduate enrollments.
- **Investment distributions** exceeded the plan by \$13.8 million, or 9 percent, due to a significant increase in investment principal from new gifts and invested fund balances. Also, these higher-than-planned returns were accompanied by increases in the recovery of investment management costs, the expenditures for which appear as administrative and support costs (line 31).
- **Unrestricted and restricted gifts** totaled \$118 million, an increase of \$15.7 million over the plan, reflecting an unanticipated, one-time unrestricted bequest, among other factors.
- **Direct costs of sponsored programs** and the **indirect recovery of facilities and administrative (F&A) costs** related to those programs totaled \$363.6 million in 2004-05, \$21.3 million greater than planned. Significant growth in direct support for sponsored programs across the contract colleges and the endowed Ithaca research centers (see line 27) was offset partially by lower-than-planned activity in the College of Engineering.
- **State appropriations** of \$138.7 million were \$3.9 million greater than planned due to the receipt of one-time and continuing salary program funding.

Transfers from **funds functioning as endowment** totaled \$28.1 million, reflecting the movement of funds to cover the costs of recent construction, debt service, operating costs, and student support. Transfers from **plant reserves** totaled \$4.8 million, and included amounts used to pay for information technology, renovations, repairs, and operating costs.

Expenditures and Transfers Out

Expenditures in 2004-05 totaled \$1.495 billion, an increase of \$22.1 million, or 1.5 percent, from the plan and 6.2 percent higher than in 2003-04.

- **College** expenditures were \$2.1 million more than planned due to renovation costs in the College

of Agriculture and Life Sciences and the School of Hotel Administration and new faculty hires and research in the College of Arts and Sciences. This growth was offset partially by less-than-anticipated research expenditures in the College of Engineering, unfilled positions in the Law School, and a reduction in faculty startup costs that were planned in the College of Veterinary Medicine.

- Expenditures in **other academic programs** were \$4.8 million more than planned due to increased sponsored program activity in Computing and Information Sciences, library acquisitions, increased operating costs resulting from greater enrollments in Cornell Abroad, and expenditures for several academic initiatives.
- **Centrally recorded financial aid** costs were 2.7 percent less than planned due to a slightly lower-than-planned number of undergraduate grant-aid recipients. (See page 22.) Also contributing to this variance was \$1.1 million of graduate support that was planned centrally (line 29) but recorded in the College of Arts and Sciences (line 19).
- **Administrative and support** expenditures were \$16.6 million more than budgeted due to: (a) \$5 million of administrative systems costs planned as transfers to plant (line 37) that were instead expensed in current funds, (b) a \$3.6 million rise in public communications costs, (c) \$1.8 million growth in investment management costs, and (d) \$4.7 million of added alumni and development costs that were offset by higher gift revenue.
- **Physical plant** expenditures were 6.8 percent less than budgeted as facility improvements planned in current funds were instead recorded in plant funds, and were reflected as transfers. (See below.)

Transfers to **funds functioning as endowment** totaled \$27 million as gifts, including a one-time bequest, were invested for academic initiatives. Transfers to **plant funds**, which were recorded at \$75.1 million, funded a variety of capital projects in student housing, facilities and campus services, and in several colleges.

Net from Operations

The combination of these changes yielded a **net from operations** of \$2.4 million, reflecting primarily additions to restricted fund balances, offset partially by reductions in general purpose and designated funds.

Ithaca Campus						Change from	
(dollars in thousands)		02-03	03-04	04-05	04-05	04-05	03-04
		Actual	Actual	Plan	Actual	Plan	Actual
Resources							
1. Tuition & Fees		\$475,242	\$514,947	\$544,338	\$541,466	(\$2,872)	5.1%
2. Investment Distributions		152,716	172,109	153,819	167,643	13,824	(2.6%)
3. Unrestricted Gifts		49,894	52,763	34,254	46,620	12,366	(11.6%)
4. Restricted Gifts		61,368	76,701	68,064	71,394	3,330	(6.9%)
5. Sponsored Programs (direct)		253,691	253,491	272,905	291,376	18,471	14.9%
6. Sponsored Programs (F&A)		63,647	69,271	69,475	72,256	2,781	4.3%
7. Institutional Allowances		149	73	72	33	(39)	(54.8%)
8. State Appropriations		145,747	140,127	134,781	138,713	3,932	(1.0%)
9. Federal Appropriations		18,770	17,048	18,899	16,300	(2,599)	(4.4%)
10. Enterprise Sales & Services		109,798	109,432	115,982	111,291	(4,691)	1.7%
11. Other Sources		<u>87,257</u>	<u>92,906</u>	<u>97,764</u>	<u>109,268</u>	<u>11,504</u>	<u>17.6%</u>
12. Subtotal In-Year Revenues		1,418,279	1,498,868	1,510,353	1,566,360	56,007	4.5%
13. Transfers From Endowment		19,883	34,674	24,825	28,091	3,266	
14. Transfers From Plant		<u>2,632</u>	<u>4,620</u>	<u>11,830</u>	<u>4,791</u>	<u>(7,039)</u>	
15. Subtotal Transfers In		22,515	39,294	36,655	32,882	(3,773)	
16. Total Resources		1,440,794	1,538,162	1,547,008	1,599,242	52,234	4.0%
Uses of Resources							
17. Agriculture & Life Sciences		203,741	208,245	215,733	218,716	2,983	5.0%
18. Architecture, Art, & Planning		15,445	14,802	15,974	16,716	742	12.9%
19. Arts & Sciences		146,492	150,969	153,307	160,524	7,217	6.3%
20. Engineering		104,711	112,927	119,028	113,166	(5,862)	0.2%
21. Hotel Administration		39,751	41,415	42,753	45,901	3,148	10.8%
22. Human Ecology		44,546	41,202	45,818	45,651	(167)	10.8%
23. Industrial & Labor Relations		37,609	37,887	39,278	39,299	21	3.7%
24. Johnson School		37,427	37,168	38,514	38,272	(242)	3.0%
25. Law School		22,545	21,744	24,085	22,085	(2,000)	1.6%
26. Veterinary Medicine		82,221	83,737	93,828	90,119	(3,709)	7.6%
27. Research Centers		86,103	90,206	80,156	88,939	8,783	(1.4%)
28. Other Academic Programs		101,998	110,065	117,733	122,573	4,840	11.4%
29. Centrally Recorded Financial Aid		108,840	123,055	133,697	130,140	(3,557)	5.8%
30. Student Services		94,882	100,829	106,356	106,787	431	5.9%
31. Administrative & Support		99,624	113,761	118,054	134,660	16,606	18.4%
32. Physical Plant		99,122	113,266	122,820	114,490	(8,330)	1.1%
33. Ithaca Campus All Other		5,417	8,117	7,025	8,266	1,241	1.8%
34. Cost Redistribution		<u>(1,500)</u>	<u>(1,545)</u>	<u>(1,576)</u>	<u>(1,576)</u>		<u>2.0%</u>
35. Subtotal Expenditures		1,328,974	1,407,850	1,472,583	1,494,728	22,145	6.2%
36. Transfers To Endowment		41,655	59,137	6,121	26,986	20,865	
37. Transfers To Plant		<u>47,381</u>	<u>55,405</u>	<u>60,309</u>	<u>75,126</u>	<u>14,817</u>	
38. Subtotal Transfers Out		89,036	114,542	66,430	102,112	35,682	
39. Total Uses of Resources		1,418,010	1,522,392	1,539,013	1,596,840	57,827	4.9%
40. Net From Operations		22,784	15,770	7,995	2,402	(5,593)	

MEDICAL COLLEGE

Revenues and Transfers In

Revenues for 2004-05 for the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences totaled \$821.3 million, an increase of \$17.7 million, or 2.2 percent, from the plan and 13.2 percent over the amount recorded in 2003-04.

- **Gifts** received for **unrestricted** or internally designated purposes were recorded at \$1.7 million, \$1.1 million less than planned. **Restricted gifts**, including monies received for purposes specified by the donors, were recorded at \$55.5 million, \$38.3 million less than anticipated. These changes reflected a delay in Strategic Plan II gifts that support operating activities pending completion of the Ambulatory Care building.
- **Sponsored programs direct cost** revenues totaled \$107.9 million, a \$3.5 million, or 3.3 percent, increase from 2003-04. This growth resulted from an increase from the prior year of \$7.5 million in government funding and a decrease of \$4.0 million in private grant support. Faculty recruited as part of the Strategic Plan accounted for \$9.6 million of the total government support. **Facilities and administrative (indirect cost) recoveries** from **sponsored programs** reached \$42.4 million in 2004-05, a \$1.5 million, or 3.6 percent, growth from the prior year.
- The **Physician Organization (PO)** reported revenues of \$364.5 million, representing a \$29.5 million, or 8.8 percent, increase from the plan and a 12.5 percent increase over the amount received in 2003-04. This growth was fueled by the maturation of clinical initiatives introduced as a component of the Strategic Plan and the addition of clinical faculty in existing areas.
- Revenues for services purchased by the **New York-Presbyterian Hospital (NYPH)** from the Medical College netted \$76.5 million, \$4.9 million greater than planned and 21.2 percent more than recorded in 2003-04. These revenues represent payments for the supervision and training of NYPH residents and other hospital-related professional services.
- By agreement, revenues received from the **Qatar Foundation** in support the operation of the Weill Cornell Medical College in Qatar must equal the level of in-year expenditure, with unexpended

funds being returned to the Foundation at the end of the fiscal year. During 2004-05, Cornell received \$51.6 million from the Foundation. While the College in Qatar continues to grow in both enrolled students and employed faculty and staff, the level of expenditures was lower than anticipated, resulting in an unexpended balance of \$19.8 million. (See line 20.)

Expenditures and Transfers Out

Expenditures in 2004-05 were \$808.2 million, an increase of \$16.9 million, or 2.1 percent, from the plan and 11.5 percent more than recorded in 2003-04.

- Expenditures for **academic and clinical departments**, including the PO, increased 8.6 percent over the prior year total, to \$636.4 million. This growth resulted from expansion in two areas: a) higher PO-related expenditures due to greater malpractice premiums and medical service contracts and b) costs related to NYPH-purchased services.
- **Administrative and support** costs for the Weill Medical College increased \$4.1 million, or 6.5 percent, from the plan, to \$66.9 million. These costs included operating expenses for student services and academic and administrative support units. Administrative and support costs for the **Medical College in Qatar** decreased \$19.8 million from the plan, to \$31.8 million. These costs were 54.9 percent more than recorded in 2003-04.
- **Physical plant** expenditures totaled \$40.4 million, a 15.2 percent increase from the prior year, reflecting increased debt service payments, operating and maintenance costs, and insurance premiums.

Transfers to **plant funds** of \$2.2 million reflected equipment purchases and capitalized software costs of the PO.

Net from Operations

The combination of these factors yielded a **net from operations** of \$11 million, which was **held in current fund balances**. This net included surpluses totaling \$17.4 million in general purpose and restricted funds that were offset partially by the use of \$6.4 million in designated and enterprise/service operating fund balances.

Medical College						Change from	
(dollars in thousands)		02-03	03-04	04-05	04-05	04-05	03-04
		Actual	Actual	Plan	Actual	Plan	Actual
Resources							
1. Tuition & Fees		\$15,764	\$16,312	\$16,973	\$16,632	(\$341)	2.0%
2. Investment Distributions		31,950	28,360	29,952	29,261	(691)	3.2%
3. Unrestricted Gifts		2,239	2,065	2,809	1,667	(1,142)	(19.3%)
4. Restricted Gifts		69,678	55,590	93,847	55,534	(38,313)	(0.1%)
5. Sponsored Programs (direct)		100,813	104,436	106,951	107,901	950	3.3%
6. Sponsored Programs (F&A)		39,007	40,892	42,088	42,368	280	3.6%
7. Institutional Allowances *		17,531	19,081	19,865	20,620	755	8.1%
8. State Appropriations		138	223	143	179	36	(19.7%)
9. Physician Organization (PO)		281,356	323,968	334,975	364,451	29,476	12.5%
10. NYPH (purchased services)		60,475	63,106	71,600	76,478	4,878	21.2%
11. Enterprise Sales & Services		10,758	11,848	11,625	14,940	3,315	26.1%
12. Qatar		29,358	30,053	51,593	51,593		71.7%
13. Other Sources		<u>16,999</u>	<u>29,510</u>	<u>21,167</u>	<u>39,699</u>	<u>18,532</u>	<u>34.5%</u>
14. Subtotal In-Year Revenues		676,066	725,444	803,588	821,323	17,735	13.2%
15. Transfers From Endowment							
16. Transfers From Plant							
17. Subtotal Transfers In							
18. Total Resources		676,066	725,444	803,588	821,323	17,735	13.2%
Uses of Resources							
19. Medical College (academic/clinical)		531,823	586,098	626,074	636,433	10,359	8.6%
20. Return to Qatar Foundation		16,957	9,518		19,785	19,785	107.9%
21. Centrally Recorded Financial Aid		10,011	11,720	10,003	11,346	1,343	(3.2%)
22. Administrative & Support		52,316	60,411	62,754	66,895	4,141	10.7%
23. Administrative & Support (Qatar)		12,401	20,535	51,593	31,808	(19,785)	54.9%
24. Physical Plant		33,257	35,044	39,316	40,354	1,038	15.2%
25. Cost Redistribution		<u>1,500</u>	<u>1,545</u>	<u>1,576</u>	<u>1,576</u>		2.0%
26. Subtotal Expenditures		658,265	724,871	791,316	808,197	16,881	11.5%
27. Transfers To Endowment							
28. Transfers To Plant		<u>4,376</u>	<u>270</u>	<u>2,500</u>	<u>2,158</u>	(342)	
29. Subtotal Transfers Out		4,376	270	2,500	2,158	(342)	
30. Total Uses of Resources		662,641	725,141	793,816	810,355	16,539	11.8%
31. Net From Operations		13,425	303	9,772	10,968	1,196	

Note: * This schedule has been restated to show as *institutional allowances* (line 7) all administrative cost recoveries related to the *Physician Organization* as well as the *Physician Organization* institutional development fund that was shown previously on a separate line. Beginning in 2004-05, these allowances were negotiated and calculated as a single value.

CAPITAL PLAN REPORT

2004-05 CAPITAL PLAN

The university's 2004-05 capital plan, which was approved by the Board of Trustees in May 2004, included a projection of capital activity for the fiscal years 2004-05 through 2008-09 for those projects that had received some level of approval to proceed through the capital project process. The schedule of capital expenditure activity on this page and the next includes those Ithaca campus projects with an estimated budget of \$2 million or more for which there were planned and/or actual expenditures in 2004-05. Excluded are miscellaneous groupings of smaller projects (e.g., planned maintenance, transportation projects, fire protection upgrades, etc.) and the projects of the Weill Medical College, which were consolidated in very broad categories (e.g., strategic plan, deferred maintenance) and phases in the approved plan.

The prevalence of actual expenditures below the planned level indicates a tendency to plan "optimistically." Plans do not typically account for the delays

in project schedules that happen during formulation, approval, design, and construction stages, nor do they necessarily factor in the lag between project work and subsequent billing and payment. The delay between effort and payment can also cause a positive expenditure variance, especially at the end of a project, as charges for projects that are substantially completed in one fiscal year get resolved and paid in a future year.

Significant capital milestones during 2004-05 include: the completion of West Campus Residential Initiative Alice Cook House, the construction of the Carl Becker House, and the start of construction on the Hans Bethe House and Noyes Community and Recreation Center; the completion of Duffield Hall and the Beck Center addition to the School of Hotel Administration; the construction of the addition to the Africana Studies and Research Center, the Friends Hall addition to Schoellkopf Hall, and the expansion of the Library Storage Annex facility; and the start of construction on the East Campus Research Facility and the Life Sciences Technology Building.

2004-05 Capital Expenditure Activity

(dollars in thousands)

	Estimated Budget from Plan	Current Estimated Budget	Project Expenditures in 04-05		
			Plan	Actual	Change From Plan
1. West Campus Residential Initiative	207,000	226,600	28,000	33,813	5,813 T
2. Mann Library Renovation	26,779	30,760	8,000	6,000	(2,000) D
3. Total Undergraduate Education	233,779	257,360	36,000	39,813	3,813
4. Life Sciences Technology Facility	140,000	157,000	20,000	8,283	(11,717) D
5. Physical Sciences Facility	100,000	125,000	4,000	2,365	(1,635) D
6. Duffield Hall	58,500	58,500	1,500	5,720	4,220 T
7. Duffield Hall Fit Out	12,000	12,000	5,000	3,227	(1,773) T
8. Engineering Quad Reconfiguration	4,000	4,000	50	206	156 T
9. East Campus Research Facility	55,000	55,000	5,400	3,142	(2,258) D
10. Baker Institute Research Facility	12,500	12,500		166	166 T
11. Nutritional Science Animal Facility	10,000		550	170	(380) D
12. Uris Hall Animal Facility	8,000	5,000	2,150	21	(2,129) D
13. Riley Robb Renovation, Phase I	5,450	5,450	3,000	3,567	567
14. Corson-Mudd Animal Facility	4,300	5,000	2,300	2,458	158
15. Chemistry/Chemical Biology Renovations	4,140	4,140	800	331	(469) T
16. Cont. Coll. Animal Facility Upgrade/Decom.	4,000	4,000	500		(500) D

Notes: N New project, not listed in 2004-05 Financial Plan.

T Timing of payment to contractor or vendor different than that anticipated. Positive variance = delay of payment from a prior fiscal year into 2004-05; negative variance = delay of payment beyond 2004-05.

D Delayed schedule (either intentionally or due to unforeseen circumstances).

A Accelerated schedule.

2004-05 Capital Expenditure Activity (cont.)

(dollars in thousands)

	Estimated Budget from Plan	Current Estimated Budget	Project Expenditures in 04-05		
			Plan	Actual	Change From Plan
17. Baker Institute Microbiology Wing		4,000		442	N
18. Plant Science Renovations	4,000	4,000	1,500	56	(1,444) D
19. Veterinary Molecular Medicine Lab	3,000	3,000	300		(300) D
20. Total Research	424,890	458,590	47,050	30,154	(16,896)
21. Campus Network Wiring Upgrade	68,000	68,000	5,000	1,897	(3,103) D
22. Administrative Systems	50,000	50,000	11,300	10,744	(556)
23. Total Information Technologies	118,000	118,000	16,300	12,641	(3,659)
24. North MVR Replacement	35,000	34,000	1,000	450	(550) D
25. Milstein Hall	27,500	34,000	2,830	367	(2,463) D
26. Plantations Fac. Upgrades/Expansion	18,217	18,279	1,400	146	(1,254) D
27. Hotel School Addition/Renovation	16,270	16,270		4,001	4,001 T
28. Library Storage Annex Expansion	10,800	10,570	7,000	2,078	(4,922) D/T
29. Johnson Museum Expansion		9,000		9	9 N
30. MVR Renovations	8,169	7,673	4,169	1,288	(2,881) D
31. Schoellkopf Hall Upgrade	8,000	8,000	6,500	4,293	(2,207) T
32. Lynah Rink Enhancements	5,000	6,500	100	224	124 A
33. Africana Center Renovations	4,230	4,230	3,525	3,232	(293)
34. Hotel School Reconfiguration	3,900	3,900	2,000	1,757	(243)
35. Law School Renovations	1,300	2,950		289	289 N
36. Total Program	138,386	155,372	28,524	18,134	(10,390)
37. Olin/Uris Library HVAC/Life Safety, Phase 1	33,000	39,600	750	209	(541) D
38. Central Heating Plant Master Plan	30,000	40,000	2,000	630	(1,370) D
39. Stocking Hall Renovation	25,000	25,000	300		(300) D
40. Bailey Hall Renovation	16,300	17,300	6,500	5,000	(1,500) D
41. MVR Exterior/Systems Upgrades	16,000	16,000	200	1	(199) D
42. Radiation Disposal Site	13,900	13,900	700	5,135	4,435 T
43. Ives Faculty Building	9,000	12,000	300		(300) D
44. Vet Necropsy Suite Rehab	7,000	7,000	1,000		(1,000) D
45. Vet Waste Management System	6,000	6,263	500	100	(400) D
46. Ward Lab Decommissioning	5,467	5,467	4,000	31	(3,969) D
47. Gannett HVAC Rehabilitation Phase II	4,000	4,500	2,000	1,072	(928) T
48. Chemical Waste Disposal Site	3,600	3,600	400	398	(2)
49. Geneva Hedrick Hall Roof, Systems	3,293	3,293	293		(293) D
50. Biotechnology Energy Conservation		2,200		1,740	1,740 N
51. Bruckner Lab Systems Upgrades/Repairs	2,000	3,300	500	50	(450)
52. Swine Farm Facility Replacement	2,000	2,000	200		(200) D
53. Ives Hall West Wing	1,150	2,082		81	81 N
54. Total Renewal/Infrastructure	177,710	203,505	19,643	14,447	(5,196)
55. Total Ithaca Campus	1,092,765	1,192,827	147,517	115,189	(32,328)

Notes: N New project, not listed in 2004-05 Financial Plan.

T Timing of payment to contractor or vendor different than that anticipated. Positive variance = delay of payment from a prior fiscal year into 2004-05; negative variance = delay of payment beyond 2004-05.

D Delayed schedule (either intentionally or due to unforeseen circumstances).

A Accelerated schedule.

INVESTMENTS

Investments at Fair Value

The fair value of Cornell's investments (based on quoted market prices, exchange rates, and current estimates for nonmarketable securities) totaled \$4.59 billion as of June 30, 2005. (See table below.)

- The total fair value of investments increased \$439.2 million, or 10.6 percent, during 2004-05.
- The Long Term Investment Pool (LTIP) constituted 78.9 percent, or \$3.623 billion, of total invested funds. Intermediate-term funds and separately invested securities represented 11.1 percent and 7.7 percent respectively, while other categories accounted for the remainder.
- The university maintains a pool of working capital and a line of credit that are used to meet the daily cash flow of disbursements. The intermediate-term category represents primarily the assets of general operating (or current) fund balances. Previously, both working capital and intermediate-term funds were invested with a shorter time horizon than the LTIP, based on the premise that their principals might be expended within three years. Because intermediate-term funds were being held for longer periods, this investment approach limited the total return that was realized on these assets. In 2002-03, the Board of Trustees modified the investment strategy for intermediate-term funds, investing such assets for the longer term. Coupled with this change in investment strategy, the university discontinued its practice of distributing investment returns for these assets at the individual account level, and instead allocates these resources at the division/college level.

Long-Term Investments

Cornell's Investment Office manages the university's portfolio of long-term investments, which includes the LTIP as well as portions of separately invested and general operating fund balances. This office oversees more than 200 investment accounts and partnerships with external investment fund managers.

- The university's long-term investment results for 2004-05 were consistent with general market conditions, out performing some component market benchmarks:

Domestic Equity (unhedged/opportunistic)	9.7%
<i>Russell 3000</i>	8.1%
<i>S&P 500</i>	6.3%
Non-U.S. Equity (developed markets)	10.9%
<i>MSCI EAFE Index</i>	14.1%
Non-U.S. Equity (emerging markets)	43.4%
<i>MSCI Emerging Markets Free</i>	34.9%
Hedged Equity	6.9%
<i>50% Russell 3000 + 5%</i>	9.4%
Private Equity	30.3%
<i>Cambridge VC & LBO 50/50 Q Lag</i>	16.8%
Real Estate	31.4%
<i>NCREIF Q Lag</i>	15.5%
REITs	28.4%
<i>Wilshire REIT Index</i>	34.2%
Resource Related (since 8/03)	8.0%
<i>Dow Jones AIG</i>	8.6%
Core Fixed Income	8.3%
<i>Lehman Aggregate</i>	6.8%
Absolute Return	8.2%
<i>T-Bills + 5%</i>	7.4%
Enhanced Fixed Income	19.4%
<i>T-Bills + 5%</i>	7.4%

Investments at Fair Value

(dollars in thousands at year end)

	6/30/04 Total	Percent of Total	6/30/05 Total	Percent of Total	Change from 6/30/04
1.Working Capital	\$8,159	0.2%	\$13,564	0.3%	\$5,405
2.Intermediate-Term Investments	646,936	15.6%	510,113	11.1%	(136,823)
3.Long Term Investment Pool	3,070,235	74.0%	3,623,192	78.9%	552,957
4.Separately Invested Securities	333,282	8.0%	352,580	7.7%	19,298
5.Life Income Pools	20,633	0.5%	17,361	0.4%	(3,272)
6.DASNY Holdings *	66,934	1.6%	68,936	1.5%	2,002
7.Other Purposes of Investment	4,570	0.1%	4,202	0.1%	(368)
8.Total	4,150,749	100.0%	4,589,948	100.0%	439,199

Note: * DASNY (Dormitory Authority of the State of New York) holdings represent bond proceeds held at custodial banks and certain debt service reserves.

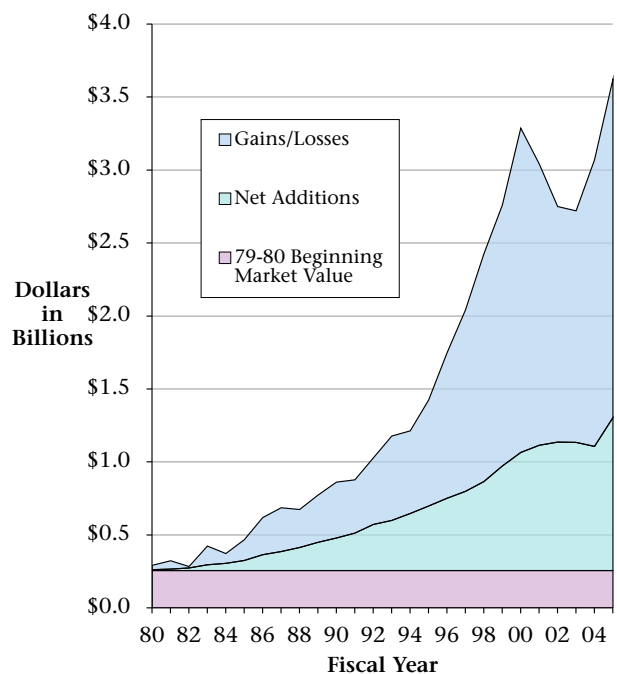
- Overall, long-term investments experienced a 13.85 percent annualized gross return in 2004-05 (13.6 percent when adjusted for investment management fees), which was greater than the 9.6 percent return of the Russell/Mellon Endowment and Foundations Median for the same period.
- A key factor in Cornell's strategy for long-term investments is the maintenance of a diversified portfolio (shown below as of June 30, 2005).

Domestic Equity (unhedged/opportunistic)	20.7%
Non-U.S. Equity (developed/emerging)	18.7%
Hedged Equity	14.4%
Private Equity	6.8%
Cash/eCornell	0.3%
Real Estate/REITs	10.5%
Resource Related	5.2%
Fixed Income/Absolute Return	<u>23.4%</u>
Total	100.0%

This portfolio is rebalanced periodically to maintain an equity-to-fixed income ratio of 75:25, ± 2.5 percentage points. As of June 30, 2005, the portfolio's equity-to-fixed balance stood at 76.6:23.4, a ratio that was within trustee-established limits.

Within the aggregate of long-term investments, the value of an LTIP share increased \$3.60, or 7.7 percent, during 2004-05. (See table below.) This growth reflected the total return noted above less payout to shareholders and investment and service charges. The number of LTIP shares grew 9.5 percent from 2003-04, reflecting the addition of \$234.8 million in new principal—from gifts and intermediate-term funds (see below). The market value of the LTIP has increased \$3.37 billion over the past 26 years, to \$3.62 billion. (See graph above, at right.) Realized and unrealized

Cumulative Change in LTIP Market Value



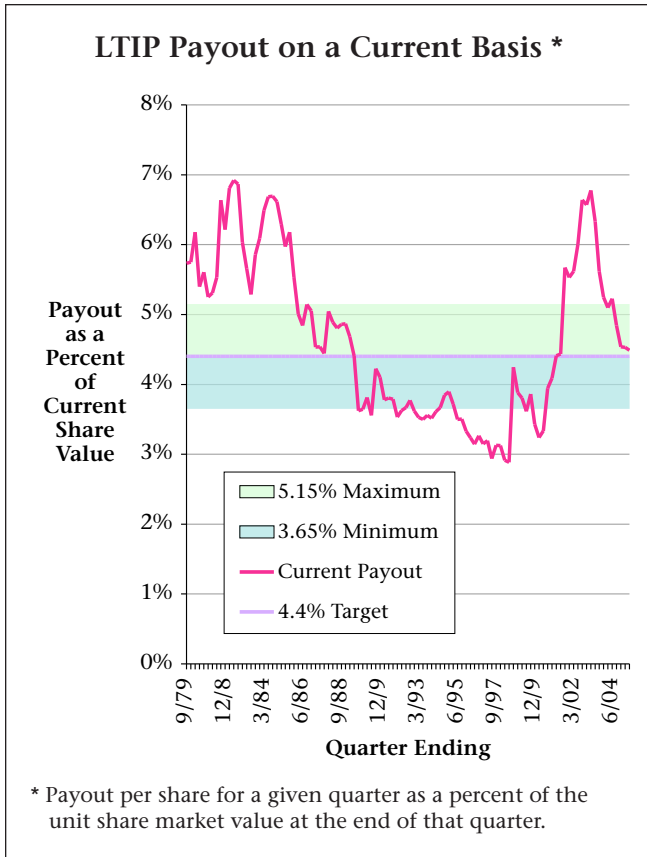
gains (net of losses) on the initial market value and all net additions have accounted for 69 percent of the cumulative growth; additions net of withdrawals have accounted for the remaining 31 percent. The combination of investment performance and the inflow of new principal have allowed the LTIP to payout a total of \$1.63 billion to shareholders over this period.

Returns on investment for intermediate-term funds were recognized in general operations (the locus of their underlying assets) and then transferred to a reserve in the LTIP at year-end closing.

Long Term Investment Pool

	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
1. Market Value (per share)	\$58.16	\$51.85	\$44.95	\$42.65	\$46.51	\$50.11
2. Annualized Gross Total Return †	18.8%	(6.4%)	(7.5%)	2.1%	16.3%	13.9%
3. Payout per Share	\$1.94	\$2.30	\$2.70	\$2.70	\$2.43	\$2.25
4. Shareholder Payout (in millions)	\$106.68	\$131.80	\$160.55	\$167.55	\$157.09	\$153.46
5. Payout as a % of 6/30 Market Value	3.3%	4.4%	6.0%	6.3%	5.2%	4.5%
6. Number of Shares (in millions)	56.5	58.7	61.2	63.8	66.0	72.3

Note: † Total returns net of investment management fees for 1999-2000, 2000-01, 2001-02, 2002-03, 2003-04, and 2004-05 were 18.5%, (6.7%), (7.7%), 1.9%, 16.12%, and 13.6% respectively.



Investment Strategy and Payout Policy

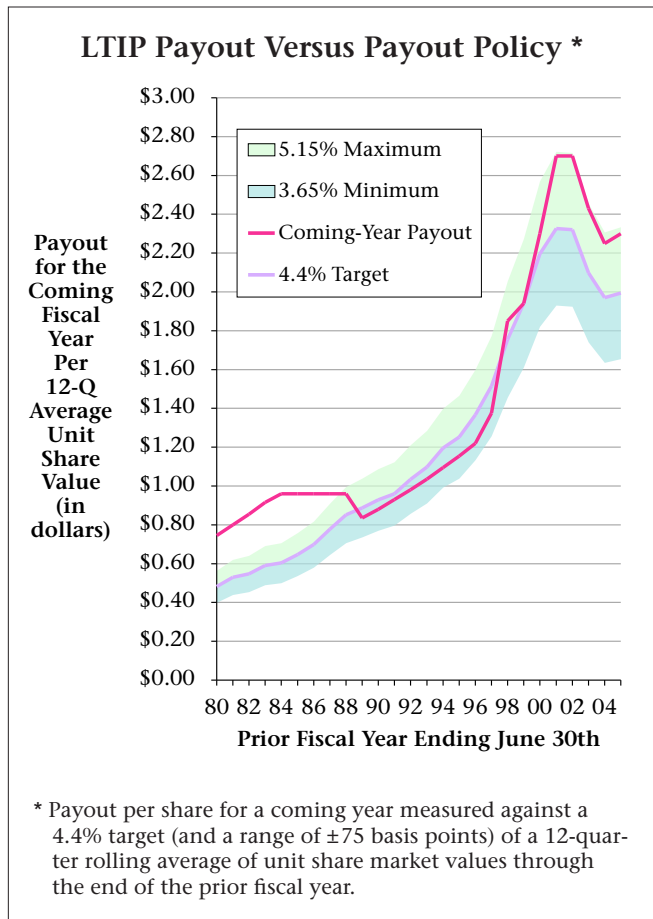
The LTIP was created in 1979, when the trustees combined the assets of the Endowment Fund (containing true endowments) and the Capital Fund (holding funds that functioned as endowments). Previously, each fund had its own approach to investment and payout. The initial investment strategy for the newly created LTIP was aimed at ensuring sufficient income for annual payout. Through the early 1980's, LTIP payout was relatively high, averaging 6 percent of current market values. (See graph above.) In 1988-89, the trustees revised their approach for the LTIP, focusing on maximizing total return and establishing a steady growth in payout (as long as it remained within a pre-determined range). The current version of the trustee's payout policy (which took effect beginning in 1998-99) has the following provisions:

- Payout for a given fiscal year is set in advance by the trustees. The proposed payout is measured against a twelve-quarter rolling average of LTIP unit share values. The final quarter of the rolling average is the fourth quarter of the prior fiscal year. Because the trustees normally declare the payout for a

coming fiscal year in the January of the prior fiscal year, the final two quarters of the rolling average are estimated.

- A target of 4.4 percent of this rolling average, ± 75 basis points, defines the range of acceptable payout levels for a given fiscal year.
- The proposed payout for the coming fiscal year is normally 5.0 percent greater than the prior fiscal year as long as that increase allows the payout to remain within its target-range boundaries.
- The trustees occasionally make step adjustments in the payout (both incremental and decremental), based on market conditions, to maintain the payout within its target boundaries. Such fine-tuning was called for in the 1990's, when the payout edged below 3 percent of current market value, and more recently, when the payout climbed above 6 percent. (See graphs at left and below.)

The LTIP's history of payout policy and payout rates is shown in the graph below. (This illustration applies the current payout policy and guidelines—includ-



ing the use of a twelve-quarter rolling average of unit share values—to all prior years, even those in which payout was set under different policies.) The combination of negative returns in 2000-01 and 2001-02 coupled with several stepped increases in payout at the end of the 1990's forced the payout level to rise to the maximum of the payout policy's acceptable range and track that ceiling. The trustees made adjustments based on these conditions, and continue to evaluate the payout level to ensure that it is sized correctly.

The LTIP and the Endowment

Cornell's endowment is composed of funds controlled and invested by the university and a set of resources that are managed externally. (See table below.) Ninety-five percent of all of the endowment that Cornell actively manages is invested in the LTIP. (The other 5 percent is separately invested or temporarily held in an intermediate-term investment vehicle.) In turn, the LTIP is almost totally composed of endowment—96 percent as of June 30, 2005. (The other 4 percent is made up of funds held in trust for others and deferred benefits for faculty and staff.) The table at right shows the distribution of payout from the LTIP by campus and function, more or less reflecting the endowment support that has been made during the years shown.

- Over the past nine years, payout from the LTIP has more than tripled. While 46 percent of this increase was due to growth in the payout rate, 54 percent was attributable to the additions of new principal, mostly from gifts.

LTIP Payout Distribution

(dollars in millions)

	<u>94-95</u>	<u>04-05</u>	<u>Change</u>
Endowed Positions	\$9.83	\$27.62	\$17.79
Instruction	5.89	17.94	12.05
Research	0.55	1.27	0.72
Public Service	0.43	1.30	0.87
Academic Support	0.37	1.56	1.19
Library	1.05	3.55	2.50
Student Services	0.56	2.71	2.15
Administrative/Support	0.14	2.60	2.46
Physical Plant	1.02	2.93	1.91
Financial Aid/Loan	11.01	36.90	25.89
Other Activities	1.60	6.79	5.19
University-Wide	<u>5.44</u>	<u>13.40</u>	<u>7.96</u>
Subtotal Ithaca Campus	37.89	118.57	80.68
Medical College	7.83	28.53	20.70
Non-University Funds *	2.92	6.36	3.44
Total	48.64	153.46	104.82

Note: * Funds managed but not owned by Cornell.

- Taken together, position and financial-aid endowments account for 54 percent of the LTIP payout distributed to Ithaca Campus programs.
- Medical College endowments invested in the LTIP have almost quadrupled since 1994-95, a growth due in large part to a series of successful fund-raising initiatives to support the College's Strategic Plan.

Endowment – Net Assets

(dollars in thousands at year end)

	<u>03-04</u>	<u>04-05</u>	<u>Change</u>	<u>Percent Change</u>
1. True Endowment & Unspent Earnings	2,146,427	2,425,814	279,387	13.0%
2. Funds Functioning as Endowment	<u>944,847</u>	<u>1,215,855</u>	<u>271,008</u>	28.7%
3. Subtotal Under Cornell Investment Management	3,091,274	3,641,669	550,395	17.8%
4. True Endowment – Contributions Receivable †	75,878	82,518	6,640	8.8%
5. Funds Held in Trust by Others *	<u>147,076</u>	<u>135,423</u>	<u>(11,653)</u>	(7.9%)
6. Subtotal Funds External to Cornell	222,954	217,941	(5,013)	(2.2%)
7. Total University Endowment	3,314,228	3,859,610	545,382	16.5%

Notes: † Unconditional written or oral promises to donate funds in the future that will be treated as endowment.

* Funds that the university neither possesses nor controls but which provide Cornell income or in which the university has a residual interest in the assets.

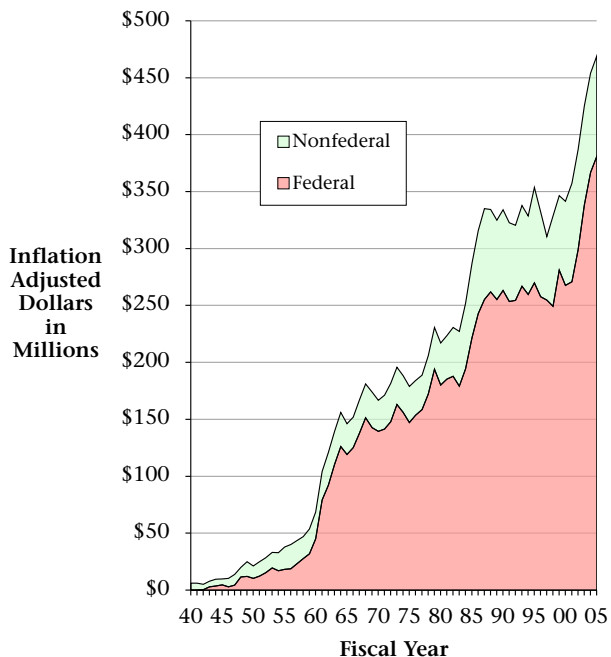
RESEARCH

Sponsored Research

Sponsored research expenditures totaled \$469 million in 2004-05, a 6.4 percent increase from 2003-04, with the federal government accounting for 81.2 percent of that total. (See graph at right.).

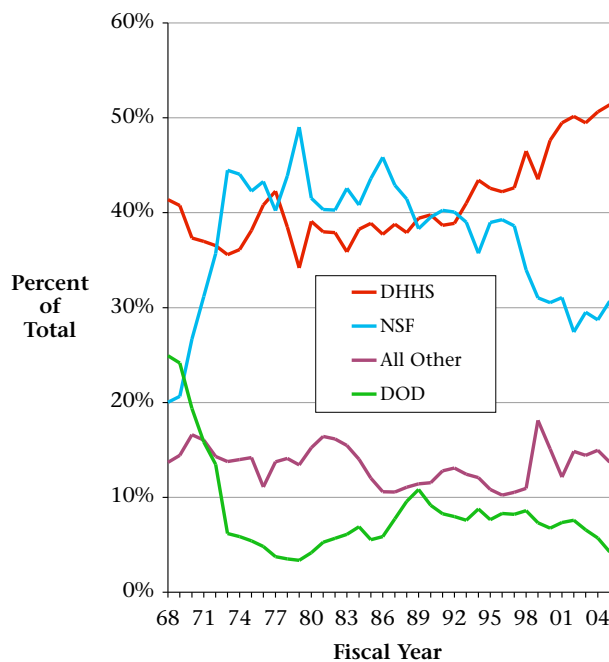
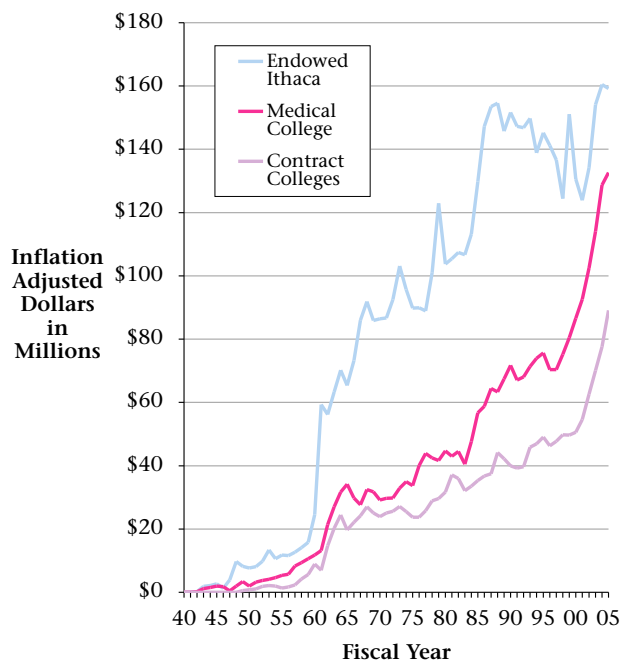
- Funding has grown at an average annual rate of 11.3 percent, or 6.9 percent in inflation-adjusted terms, since 1939-40, when externally sponsored research emerged as a major activity at Cornell. The expansion in support for endowed Ithaca occurred in waves, coincident with the establishment of a number of research centers. (See graph below at left). Research support has continued to grow over this period in the contract and medical colleges.
- Although many federal agencies support research at Cornell, three—the Department of Health and Human Services (DHHS), the National Science Foundation (NSF), and the Department of Defense (DOD)—dominate. (See graph below at right.) Support from these agencies is not distributed uniformly: 99 percent of all NSF and DOD funding goes to the Ithaca campus while 67 percent of DHHS support goes to the medical college.
- It is the increase in DHHS funding that has fueled the steady expansion in federal research for the

Sponsored Research Expenditures *
(in inflation-adjusted, 2004-05 dollars in millions)



* Excludes the Cornell Aeronautical Laboratory in Buffalo, New York, which was acquired by gift in 1945-46 and privatized and effectively sold in 1972-73.

Federally Sponsored Research (in inflation-adjusted, 2004-05 dollars in millions)



contract and medical colleges, a growth that occurred as the U.S. Congress doubled the budget for the National Institutes of Health (NIH), the largest component of DHHS. The lack of real growth in NSF funding for science and engineering nationally coupled with a decline in the Department of Energy's budget for the physical sciences have been major factors influencing the level of federal research for endowed Ithaca since the mid-1980's.

- The American Association for the Advancement of Science projects very limited inflation-adjusted growth in federal non-defense research and development spending for the 2006 budget.

Facilities and Administrative Costs

Sponsored research funding is provided in two forms:

- *Direct costs* – representing charges clearly identified with a particular project, such as the salaries and benefit costs of project participants, laboratory supplies, and project equipment.
- *Facilities and administrative costs (F&A)* – representing the average indirect costs incurred by the university in supporting a project, such as depreciation; operation, maintenance, and utility costs of facilities; libraries; and administrative costs.

In inflation-adjusted dollars, federal F&A recoveries for research and nonresearch activities have historically paralleled overall expenditures for research, totaling \$108.2 million in 2004-05. (See graph at right.)

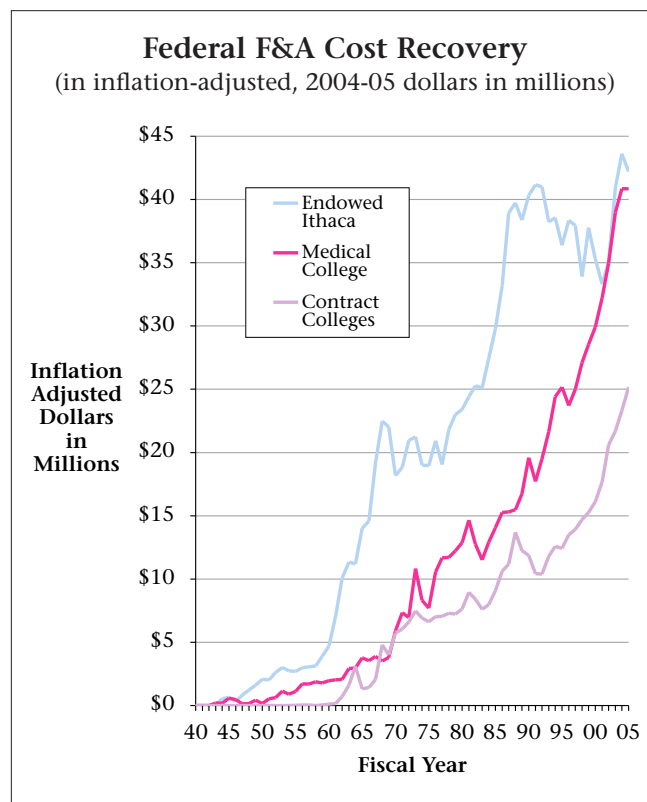
As F&A costs cannot be associated with particular projects they are paid through a federal government rate-recovery system. Several factors limit full recovery.

- Fund-raising costs are not recoverable, even when the monies raised support research.
- Administrative costs are capped by statute at 26 percent—a limit imposed in 1990 that caused a dip in recoveries soon thereafter, and remains in effect.
- Some recoveries, such as utility costs, are provided by formula, regardless of actual expenditures.
- The costs of research projects that are funded by the university rather than a sponsor are included in the direct cost base for rate determination, effectively lowering F&A rates.

While F&A rates are calculated, the final rates employed are subject to negotiation between Cornell and the federal government. They are based on historic

data that may not accurately represent future events, although they do reflect, marginally, the construction of new research facilities. These recoveries are further limited by certain conventions. For example, many federal programs that support graduate training and agricultural research do not permit the payment of the full, negotiated F&A rates. Also, some activities, particularly in the contract colleges, are considered part of the university's public service mission, and are therefore funded at a discounted rate by sponsors.

Cornell recently negotiated federal F&A rates for endowed Ithaca and the contract colleges for a four-year period beginning 2005-06. The endowed rate of 58 percent for the first two years and 59 percent for the last two years represents an increase from the 2004-05 rate of 58 percent. The contract college rates will be 53.5 percent for the first three years and 54 percent for the last year, which is a decrease from the 58 percent rate in 2004-05. The contract college rate decrease reflects limited growth in contract college research facilities at a time of increased research expenditures. Both rates include an allowance for the Life Sciences Technology Building and the East Campus Research Facility, which the university expects to complete and use for research during this period.

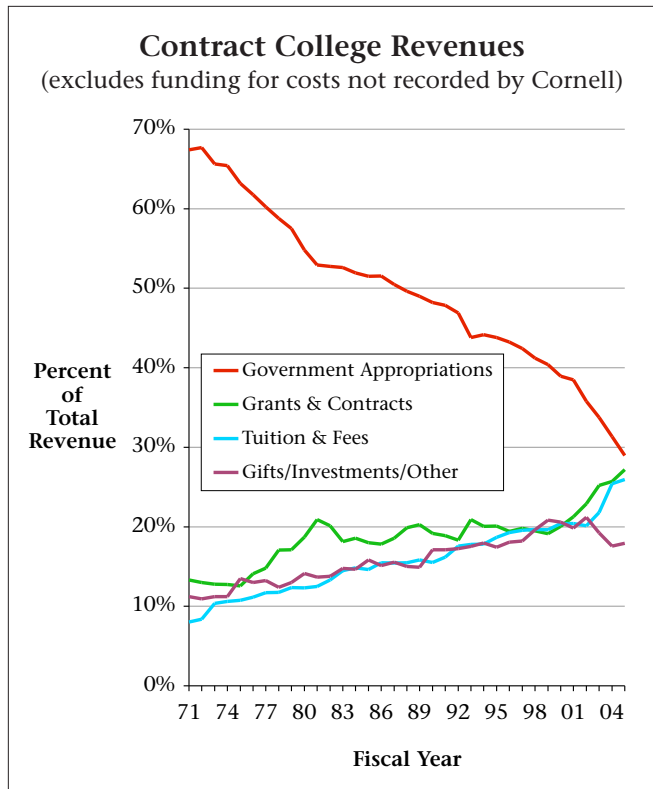
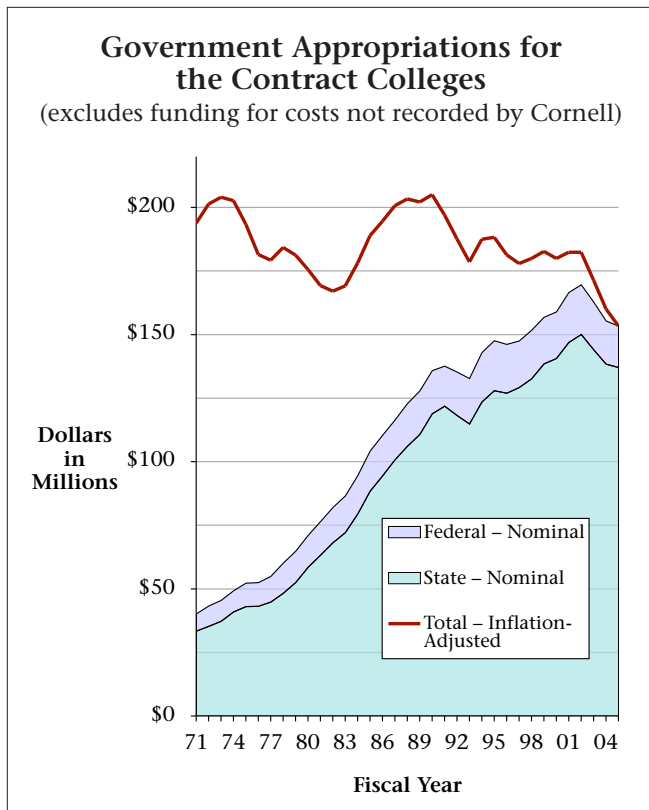


GOVERNMENT APPROPRIATIONS

Government Appropriations

In 2004-05, Cornell received \$155.2 million in federal and state appropriations, a 1.4 percent decrease from 2003-04. *Excluded from this total are funding for employee benefits costs paid directly by New York State, debt service on state-owned facilities at Cornell, and certain financial-aid funds—all of which are recorded by the state rather than the university.*

- While appropriations benefit all of Cornell's programs, most of this funding (98.9 percent) underwrites the activities of the four contract colleges. Appropriations for these colleges have grown at an average annual rate of 4 percent since 1970-71, but have declined, in inflation-adjusted terms, from \$193.8 million to \$153.4 million over the same period. (See graph below.)
- Appropriations that funded two-thirds of the contract colleges' operating budget in 1970-71 now support less than one-third of the total. (See graph at right.) Other revenues—tuition and fees, grants and contracts, gifts, investment income, and sales and services of academic departments—have together supplanted government appropriations as the major sources of support for these colleges.



Appropriations Through SUNY

Cornell received \$137.1 million in state appropriations administered through the State University of New York (SUNY) in 2004-05. (See table on page 21.) In 1998-99, SUNY revised its resource allocation method used to determine Cornell's base allocation (\$129.5 million in 2004-05), establishing annual campus allocations of tax-dollar support employing a few parameters, such as changes in enrollment and growth in external research funding. All campuses now retain the tuition and other revenues that they generate. Generally, this new methodology treats Cornell unfavorably. First, because Cornell's enrollment is stable, increases in student populations at other SUNY campuses draw state funding away from Cornell. Also, the new methodology has no provision to inflate those aspects of Cornell's funding related to its land-grant mission and the provision of instruction for contract college students in endowed Ithaca colleges (so called *accessory instruction*)—components of the methodology which account for 52 percent of Cornell's base allocation. The result is minimal nominal growth in Cornell's base allocation and no real, inflation-adjusted growth—a methodological flaw that Cornell is reviewing with SUNY's administration.

New York State Appropriations

(dollars in thousands)

	<u>02-03</u> <u>Actual</u>	<u>03-04</u> <u>Actual</u>	<u>04-05</u> <u>Plan</u>	<u>04-05</u> <u>Actual</u>
Ithaca Campus				
1. Original Base Appropriation Through SUNY	\$142,530	\$140,963	\$129,502	\$129,502
SUNY/Cornell Negotiated/Planned Increases				
2. For inflation and fixed costs				<u>4,582</u>
3. Subtotal Base Appropriation (prior to legislative actions)	<u>142,530</u>	<u>140,963</u>	<u>129,502</u>	<u>134,084</u>
4. SUNY-Initiated Adjustments	(1,567)	(2,034)	(3,000)	(3,000)
5. Other Adjustments/Reclassifications	<u>(1,156)</u>	<u>(9,427)</u> §		<u>(285)</u>
6. Revised Base Appropriation	<u>139,807</u>	<u>129,502</u>	<u>126,502</u>	<u>130,799</u>
Additional Planned State Funding Through SUNY				
7. Cooperative Extension (support for County Associations)	3,863	3,863	3,863	3,670
8. Institute for Community College (ICCD)				300 †
9. SUNY Program Support (academic equipment/fellowships)	1,803	1,445	1,391	1,650
10. Legislative Program Support	850			
11. SUCF Critical Maintenance In-Year Funds	1,861	3,577	1,276	688
12. Multi-Year Funding Adjustment	<u>(4,133)</u>			
13. Subtotal of Additional State Funding	<u>4,244</u>	<u>8,885</u>	<u>6,530</u>	<u>6,308</u>
14. Total State Appropriations Through SUNY	<u>144,051</u>	<u>138,387</u>	<u>133,032</u>	<u>137,107</u>
Other State Appropriations				
15. Bundy Aid * (based on degrees granted)	<u>1,696</u>	<u>1,740</u>	<u>1,749</u>	<u>1,606</u>
16. Total Ithaca Campus	<u>145,747</u>	<u>140,127</u>	<u>134,781</u>	<u>138,713</u>
Medical College				
17. Bundy Aid * (based on degrees granted)	<u>138</u>	<u>223</u>	<u>143</u>	<u>179</u>
18. Total Medical College	<u>138</u>	<u>223</u>	<u>143</u>	<u>179</u>
19. Total State Appropriations	<u>145,885</u>	<u>140,350</u>	<u>134,924</u>	<u>138,892</u>

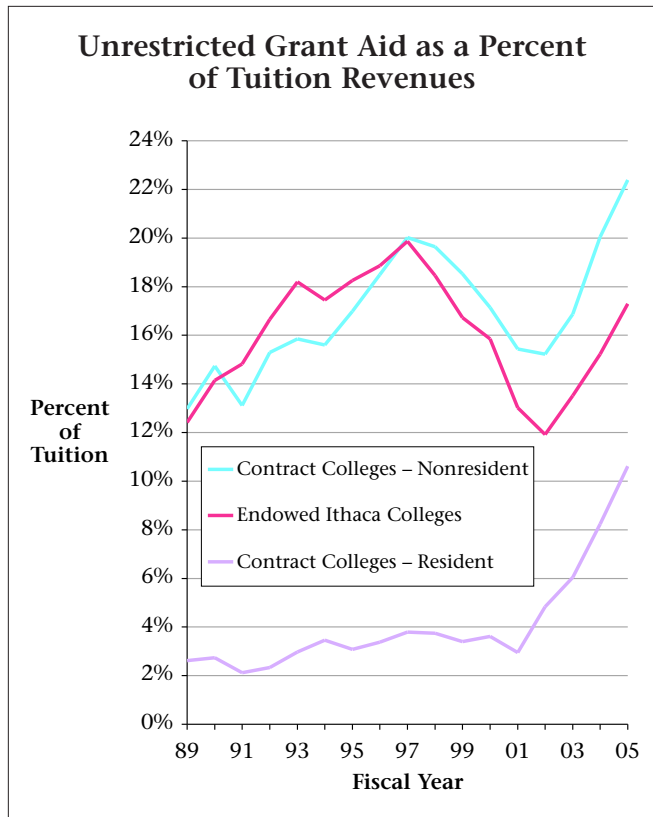
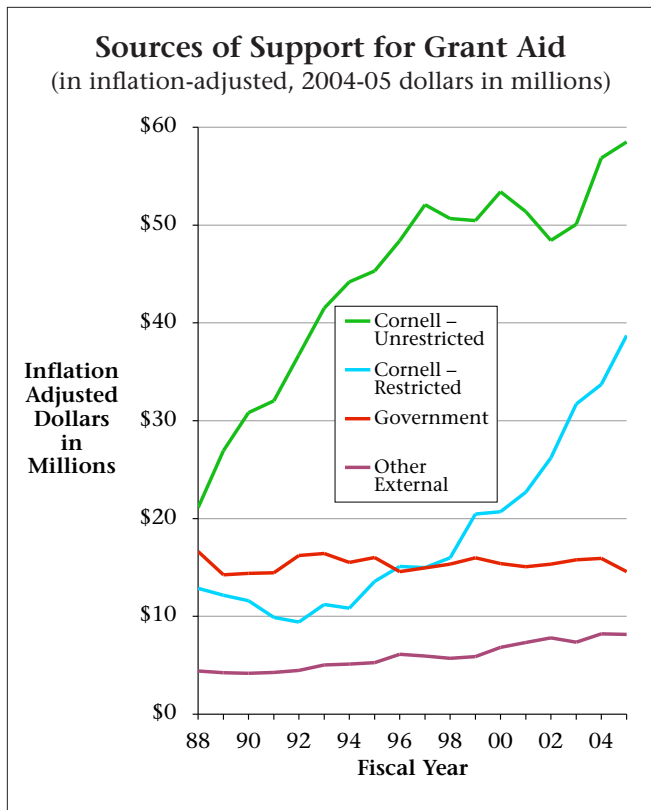
- Notes:
- Cornell receives New York State appropriations through the State University of New York (SUNY) and directly from the state. Most appropriations flow through SUNY.
 - Not represented on this schedule are certain student financial-aid funds and grants and contracts with state agencies. The schedule also excludes the value of employee benefits provided by New York State and debt service on facilities provided through SUNY, neither of which is recorded by Cornell.
 - § The state appropriation was reduced by \$9,427,000 in 2003-04 to exclude the pass-through of SUNY tuition, previously remitted to New York State and returned to Cornell as part of its state appropriation. An offsetting entry under tuition revenue was made in 2003-04.
 - † Beginning in 2004-05, funding for the Institute for Community College was disbursed through the SUNY U-Wide Programs.
 - * Direct Institutional Aid (Bundy Aid) is distributed to independent institutions of higher education in New York State based on the annual number of degrees awarded by each institution.

FINANCIAL AID

Undergraduate Financial Aid

While grant-aid expenditures from all sources (federal, state, external, and Cornell) averaged \$22,893 per grant-aided student in 2004-05, 5.9 percent more than planned, overall grant-aid expenditures were only 0.6 percent greater than budgeted, as the number of grant-aid recipients was 5 percent less than expected.

- General purpose grant-aid expenditures, which have grown at an average annual rate of 9.3 percent since 1987-88, totaled \$55.4 million in 2004-05, an increase of 5.7 percent from the prior year. (See table on page 24.) This long-term growth rate has moderated recently due to the infusion of gift and endowment support for financial aid and an increase in the amount of external grants that are not awarded directly by Cornell.
- Although government support for financial aid has increased, there has been a shift at the federal level from grant aid to loans as the main vehicle for student support. In inflation-adjusted terms, federal and state grant aid administered by Cornell was less in 2004-05 (\$14.6 million) than in 1987-88 (\$16.6 million). (See graph below.)
- The ratio of unrestricted grant aid to gross tuition

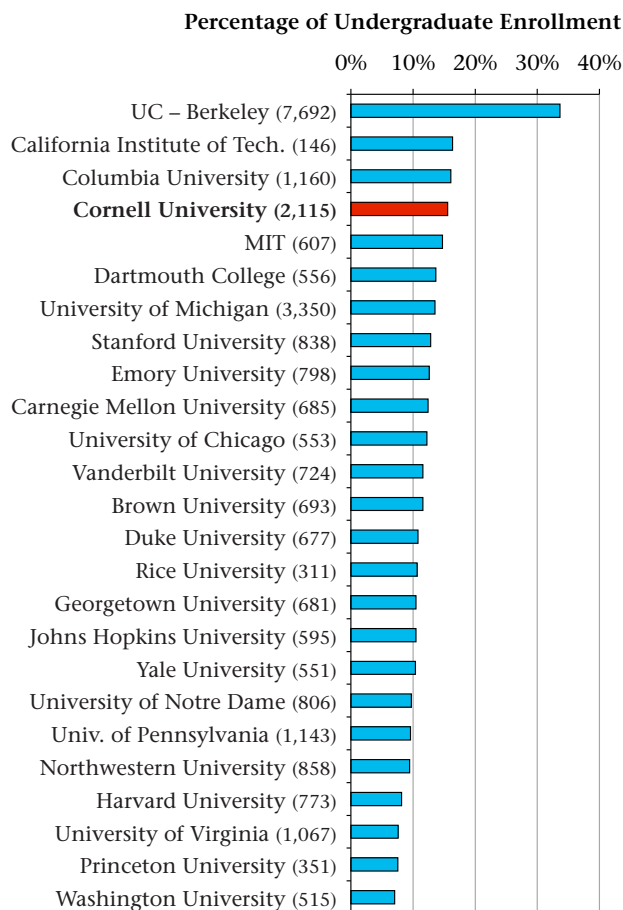


revenues, sometimes termed a *tuition discount*, is a measure of the impact that the awarding unrestricted grants has on income. From 1988-89 through 1996-97, that ratio for the endowed Ithaca colleges rose from 12.4 percent to 19.9 percent. (See graph above.) There was an almost identical change for the contract college non-resident population (13 percent to 20 percent). Both ratios then fell below 20 percent due to the increase in restricted gift and endowment support and increases in tuition rates. The recent uptick in these ratios reflects partially the impact of Cornell's adoption of the "consensus approach" in determining the financial need of students and the ability of their families to help support the cost of an undergraduate education. This approach, which takes into account circumstances such as a family having more than one dependent in college simultaneously or a significant loss suffered by a family-owned business, provides a more favorable treatment for middle-income families. The more consistent treatment of parental assets among participating institutions also increased demand for unrestricted grant aid at Cornell. Also,

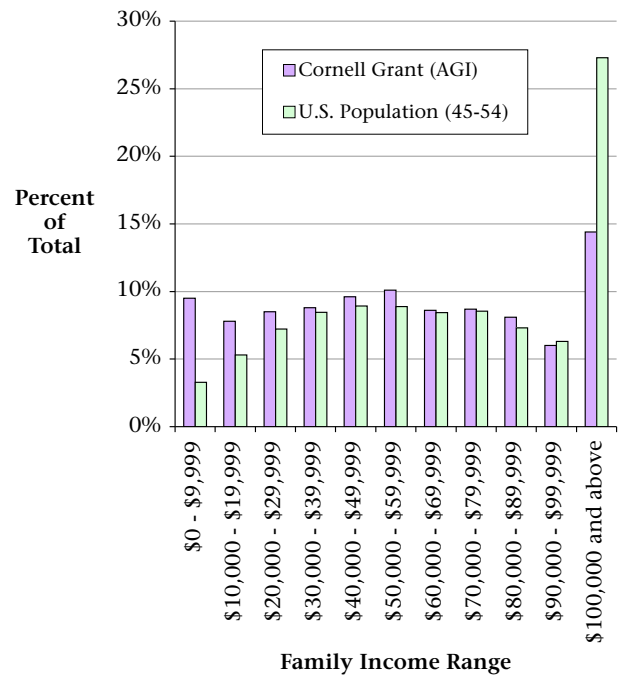
the recent substantial increases in contract college tuition rates have led to growth in grant-aid costs.

- Cornell’s continued success in maintaining undergraduate socio-economic diversity exacerbates the problem of identifying sufficient grant-aid resources, as low-income students require higher levels of grant funding. The graph below, which displays the number and percentage of undergraduates who receive Pell Grant awards (primarily students whose families have incomes below \$45,000), shows that Cornell ranks relatively high among peer institutions in attracting low-income students. Also, the distribution of Pell Grant recipients across Cornell’s seven undergraduate colleges is fairly uniform.
- The graph at right uses family income to compare

Number and Percentage of Undergraduates Per Institution Who Receive Federal Pell Grant Awards for Low-Income Students
(fall 2004; ranked in descending order of percent)



Distribution by Family Income Range of the Cornell Grant-Aid Population (fall 2004) and the U.S. Population at Large
(age 45 to 54; calendar year 2002)



the distribution of Cornell’s grant recipient population with the population of U.S. families where the head of the household is between 45 and 54 years old (the age range of the typical undergraduate’s parents.) The university’s grant-aid population has a higher percentage of low-income students than this segment of the U.S. population. Under the “consensus approach” Cornell awards grant aid to students whose families have a wide variety of incomes (measured by adjusted gross income—AGI—as reported on federal tax returns).

- Although the university is need-blind with respect to the admission of international students, it does not assist all such students in meeting the full cost of attendance. As international students are not generally eligible for federal or state financial-aid programs any aid that they do receive, over and above that which they bring from their home countries, must come from Cornell’s resources. The university expended \$1.94 million for international students in 2004-05 (excluding those from Canada and Mexico) or \$6.36 million when those students are included.

FINANCIAL AID

Sources of Funding for Undergraduate Financial Aid						Percent Change from Plan to Actual	Average Annual Growth Rate from 87-88
(dollars in thousands)							
	87-88 Actual	02-03 Actual	03-04 Actual	04-05 Plan	04-05 Actual		
Family Contribution							
1. Parental	\$22,189	\$63,749	\$68,712	\$71,460	\$72,379	1.3%	7.2%
2. Student	7,819	17,773	17,846	18,738	17,725	(5.4%)	4.9%
3. Subtotal	30,008	81,522	86,558	90,198	90,104	(0.1%)	6.7%
Federal Government							
4. Grants	5,143	9,421	9,749	9,770	9,071	(7.2%)	3.4%
5. Loans	11,192	32,059	32,781	33,468	29,485	(11.9%)	5.9%
6. Work/Study	2,769	4,907	4,891	5,000	4,578	(8.4%)	3.0%
7. Subtotal	19,104	46,387	47,421	48,238	43,134	(10.6%)	4.9%
State Government							
8. Grants	4,903	5,572	5,709	5,760	5,499	(4.5%)	0.7%
9. Work/Study	692						
10. Subtotal	5,595	5,572	5,709	5,760	5,499	(4.5%)	(0.1%)
Other External							
11. Grants	2,663	7,001	7,978	8,258	8,148	(1.3%)	6.8%
12. Subtotal	2,663	7,001	7,978	8,258	8,148	(1.3%)	6.8%
Cornell							
13. General Purpose Grants	12,157	45,180	52,441	55,422	55,422		9.3%
14. Designated Grants	594	2,393	2,745	2,444	3,071	25.7%	10.1%
15. Gifts/Endowment Grants	7,770	30,106	32,723	37,544	38,701	3.1%	9.9%
16. Loans	130	1,364	1,842	1,800	3,129	73.8%	20.6%
17. Work/Study	1,846	4,907	4,891	5,000	4,578	(8.4%)	5.5%
18. Subtotal	22,497	83,950	94,642	102,210	104,901	2.6%	9.5%
19. Total	79,867	224,432	242,308	254,664	251,786	(1.1%)	7.0%
Financial-Aid Population						Percent Change from Plan to Actual	Average Annual Growth Rate from Fall 1987
(on- and off-campus)							
	Fall 1987 Actual	Fall 2002 Actual	Fall 2003 Actual	Fall 2004 Plan	Fall 2004 Actual		
All Undergraduates							
1. Total Enrollment	12,958	13,725	13,655	13,606	13,625	0.1%	0.3%
2. Number with Need	5,173	6,598	6,717	6,603	6,431	(2.6%)	1.4%
3. Percent of Total Enrollment	39.9%	48.1%	49.2%	48.5%	47.2%		
4. Number with Grant Aid	3,815	5,416	5,609	5,513	5,238	(5.0%)	2.0%
5. Percent of Total Enrollment	29.4%	39.5%	41.1%	40.5%	38.4%		
Minority Undergraduates							
6. Total Minority	2,436	3,717	3,698	3,674	3,768	2.6%	2.8%
7. Percent of Total Enrollment	18.8%	27.1%	27.1%	27.0%	27.7%		
8. Underrepresented Minority	1,124	1,462	1,471	1,473	1,554	5.5%	2.0%
9. Percent of Total Enrollment	8.7%	10.7%	10.8%	10.8%	11.4%		

Notes:

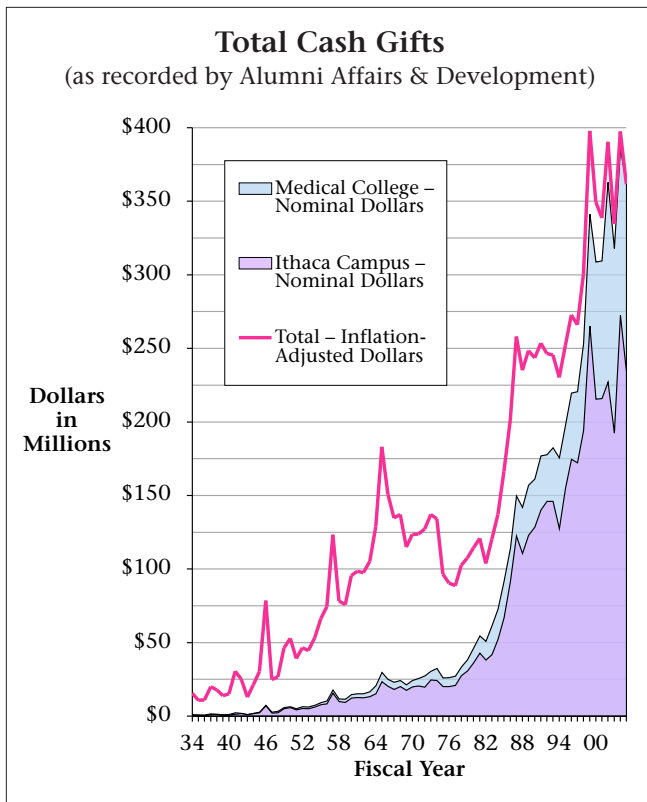
- The sources of financial aid shown are for students who demonstrate a financial need according to Cornell's methodology. Financial-aid amounts are shown as computed and as awarded. Students sometimes elect to underutilize the loan and work study components of their financial-aid packages.
- Enrollments exclude *in-absentia* and extramural students.

GIFTS/CONTRIBUTIONS

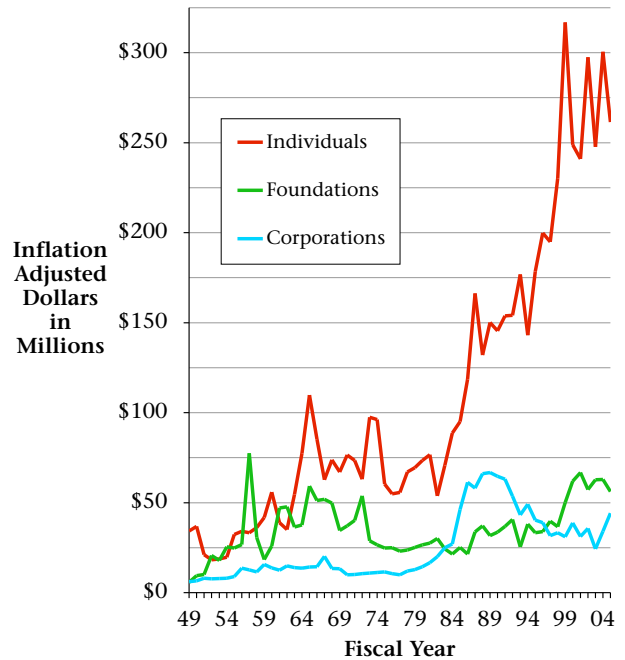
Gifts/Contributions

Cornell raised \$361.6 million in cash gifts in 2004-05 (as reported by Alumni Affairs and Development), a 6.3 percent decrease from the prior-year amount. (See graph below and table on page 26.)

- Since 1933-34, the nominal level of cash gifts to Cornell has grown at an annual compounded rate of 6.8 percent. In inflation-adjusted terms, giving has increased at 2.9 percent per year.
- Gift sources have varied substantially over time. (See graph at right.) Corporate gifts, which increased substantially in the 1980's, have since declined in inflation-adjusted terms. Foundation support has rebounded to the level that Cornell enjoyed in the 1960's. Individual support—now 72 percent of total giving—has grown dramatically. Gifts from alumni (including bequests) account for 47 percent of all cash donations.
- Cornell has achieved significant fund-raising success since the 1980's due to a combination of institution-wide campaigns and a number of focused initiatives to develop support for undergraduate financial-aid and several major capital construction projects. These and other efforts helped boost



Sources of Cash Gifts
(in inflation-adjusted, 2004-05 dollars in millions)



the inflation-adjusted level of annual cash giving from about \$200 million in the early 1990's to over \$300 million today.

Cornell's financial statements report as *contributions* the sum of cash gifts, pledges deemed as *unconditional promises to give*, and irrevocable outside trust income.

- A total of \$286.7 million in contributions was reported in the university's 2004-05 financial statements, a decrease of 18.1 percent from the amount recorded in 2003-04. This sum differed by \$74.9 million from the total of cash gifts reported by Alumni Affairs and Development, and included adjustments for pledges, gift annuities, split-interest agreements, and timing differences. (See table on page 26 for a reconciliation.)
- Contributions for general operations declined \$22.9 million from the 2003-04 level, while contributions to financial capital and physical capital decreased \$40.4 million and \$12 thousand respectively. The overall decline in contributions was centered on the Ithaca campus, as the Medical College experienced a slight (0.7 percent) growth in contributions recorded from 2003-04.

GIFTS/CONTRIBUTIONS

Reconciliation of Contributions to Cash Gifts

(dollars in thousands)

	<u>Ithaca Campus</u>	<u>Medical College</u>	<u>04-05 Total</u>	<u>03-04 Total</u>	<u>02-03 Total</u>	<u>01-02 Total</u>
General Operations						
1. Unrestricted	\$33,225	\$60,156	\$93,381	\$83,924	\$95,550	\$123,414
2. Temporarily Restricted	<u>32,614</u>	<u>208</u>	<u>32,822</u>	<u>65,198</u>	<u>35,669</u>	<u>128,608</u>
3. Subtotal General Operations	65,839	60,364	126,203	149,122	131,219	252,022
Financial Capital						
4. True Endowment	60,312	30,967	91,279	76,925	37,642	80,220
5. Funds Functioning as Endowment	9,789	10,758	20,547	74,011	37,239	28,559
6. Life Income Funds	4,720	205	4,925	6,343	3,821	4,639
7. Trusts Held by Others	2,103	132	2,235	2,332	276	6,752
8. Loan Funds	<u>176</u>	<u>385</u>	<u>561</u>	<u>339</u>	<u>1,159</u>	<u>591</u>
9. Subtotal Financial Capital	77,100	42,447	119,547	159,950	80,137	120,761
Physical Capital						
10. Cash Gifts	14,429	11,470	25,899	26,618	8,879	54,507
11. Gifts in Kind	<u>8,225</u>	<u>6,856</u>	<u>15,081</u>	<u>14,374</u>	<u>2,371</u>	<u>10,083</u>
12. Subtotal Physical Capital	22,654	18,326	40,980	40,992	11,250	64,590
13. Financial Statement Total	165,593	121,137	286,730	350,064	222,606	437,373
Adjustments						
14. Gifts from Outside Trusts	3,184	(132)	3,052	429	628	(1,167)
15. Gift Annuities	4,936		4,936	1,257	3,607	1,482
16. Split-Interest Agreements	2,341		2,341	4,484	2,531	5,845
17. Insurance Premiums Not Booked					1	(24)
18. Pledges (net present value)	41,016	6,772	47,788	22,335	86,149	(83,412)
19. Timing Differences	(7,657)	(48)	(7,705)	7,367	1,522	(605)
20. Other	<u>24,450</u>		<u>24,450</u>		<u>(1)</u>	<u>3,541</u>
21. Subtotal Adjustments	68,270	6,592	74,862	35,872	94,437	(74,340)
22. Gift Records Total	233,863	127,729	361,592	385,936	317,043	363,033

- Notes:
- This table reconciles contributions as displayed in the financial statements (line 13) to cash gifts as reported by Alumni Affairs and Development from the contributor relations system (line 22). The reconciling adjustments between the two records are detailed on lines 14 through 20.
 - Line 14 shows the net difference in valuation of gifts from outside trust agreements that are recorded in the contributor relations system at full value and may be reflected at present value in the financial statements. Lines 15 and 16 identify trusts in which the university shares an interest with the donors. While the gifts are reflected at full value in the contributor relations system, Cornell's financial statements recognize the liability owed to the beneficiaries of these trusts. Line 17 reflects insurance policy gifts and premiums that are not recorded in the financial statements until the policy matures. Line 18 reflects the net present value of unconditional promises to give (pledges) that were recorded in the financial statements but not treated as cash gifts in the contributor relations system. Lines 19 and 20 identify other periodic adjustments.
 - Some of these exclusions—all of which are based on the application of reporting standards appropriate for each record—are entire (e.g., the inclusion of pledges in the financial statements and the exclusion of such promises from the cash gifts of the contributor relations system). Others are partial (e.g., the recognition in the financial statements of the interest that beneficiaries may have in split-interest agreements).