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Financial Plan

Operating and Capital

Year-End Variance Report

December 2003

CORNELL


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INTRODUCTION

To the Cornell University Board of Trustees:

This document presents a variance analysis of the university's 2002-03 financial plan, which was approved by the Board of Trustees in May 2002. Cornell ended the fiscal year on June 30, 2003 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 management process to maintain the on-campus, fall semester freshman enrollment at 3,000, which we believe results in an optimal number of about 13,000 undergraduates and allows us to accommodate all freshmen in North Campus housing. In 2002-03, the university discontinued its practice of admitting a small first-time freshman class in the spring semester, and increased the fall target to 3,050 to compensate. Tuition and fee revenues for 2002-03 were greater than planned as we exceeded slightly our revised undergraduate enrollment target. Graduate enrollments were also higher than anticipated, adding to the revenue overage.
- Support for sponsored programs—primarily research—increased 15.2 percent in 2002-03. There was strong growth in all three divisions. 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.
- While the Physician Organization's overall revenues of \$297 million were slightly less than planned, they grew 2.7 percent from the prior year, and are a vital source of support for the Medical College.
- The university raised \$317 million in cash gifts in 2002-03, a 13 percent decrease from the prior-year amount. Despite this country's uneven economic recovery in 2002-03, we were second in the nation in the level of cash gifts received from alumni. We remain indebted to our alumni and other benefactors for their continued support.
- Cornell's investments provided \$185 million in funding for the operating plan in 2002-03, representing 8.8 percent of total revenues. Most of this support came from the Long Term Investment Pool, which contains 96 percent of the endowment. The fair value of our overall investment portfolio increased by 2.1 percent during the fiscal year, aided primarily by the strong investment

performance in the fiscal year's fourth quarter.

- Academic programs (schools, colleges, centers, programs, and libraries) represented 74 percent of all expenditures, accounting for \$1.465 billion in cost. Academic program expenditures grew 7.7 percent from their 2001-02 levels, driven largely by salary improvement programs.
- Nonacademic programs (student services, administrative and support, physical plant) represented 20 percent of all expenditures, accounting for \$397 million in cost. This total reflected a 1 percent increase from the 2001-02 level.
- Centrally recorded financial aid accounted for the remaining 6 percent, or \$125 million, in cost, growing 7 percent from 2001-02.
- Cornell recorded a \$36.2 million net from operations (representing 1.7 percent of revenues), which was added to operating fund balances.
- We made good progress on our capital plan during 2002-03. The design of phase one of the West Campus Initiative was completed and construction on the first two houses was initiated, with completion of this phase expected in July 2004. Ground was broken on the Statler Hall Beck Center, a project that will renovate part of the building and add 35,000 gross square feet of new space for the School of Hotel Administration. Major progress was made in the construction of Duffield Hall and the university completed and dedicated a beautiful new facility for the Laboratory of Ornithology. In the research arena, detailed plans were advanced for major initiatives in the life sciences and the physical sciences.

We believe that these activities and outcomes indicate responsible management and the strength to pursue our academic mission. In addition to the budget results, we have included reports on four key financial issues—investments, research, 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. Bidy Martin
Provost

OPERATING PLAN REPORT – HIGHLIGHTS

2002-03 OPERATING PLAN

The university's 2002-03 composite operating plan was predicated on revenues of \$2.004 billion and expenditures of \$1.933 billion.

Revenues

Revenues totaled \$2.095 billion, an increase of 4.6 percent from the plan and 6.4 percent greater than recorded in 2001-02. There were several significant revenue changes that led to the positive variance.

- **Tuition and fee revenues** were \$6.1 million greater than planned due to increased enrollments.
- Budgeted **distributions** from various **investment** sources exceeded the plan by \$3.1 million due to growth in all three divisions in the amount of invested principal over that anticipated.
- **Unrestricted** and **restricted gifts** that flow to operating budgets totaled \$181 million, 21.5 percent more than planned.
- **Direct** and **indirect costs of sponsored programs** were \$60.8 million more than planned as grant and contract funding grew in all three divisions.
- **State government appropriations** were \$6.5 million less than budgeted due to a base budget reduction combined with a less than expected funding of facility maintenance costs.
- While clinical practice revenues (including the institutional development fund) for the **Physician Organization** (PO) were 0.4 percent less planned, they grew 2.7 percent from 2001-02.
- Supervision and training services purchased from the Medical College by the **New York–Presbyterian Hospital** were \$3.8 million less than expected.
- 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 \$2.7 million more than planned.

Transfers In from Other Funds

A total of \$19.9 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 \$2.6 million was transferred from **plant funds**, most of which was used to pay for renovations, repairs, and operations.

Expenditures

Expenditures totaled \$1.987 billion, an increase of 2.8 percent from the plan and 6.3 percent greater than in 2001-02. Within this overall change in the plan there were major positive and negative variances.

- **College** expenditures were \$80 million more than planned. Expenditures in the Medical College and the Colleges of Agriculture and Life Sciences and Arts and Sciences exceeded the plan by \$62.6 million, \$7.6 million, and \$11.4 million respectively. Research growth in these three colleges and Physician Organization activities in the Medical College led to this variance from plan, offset partially by decreases from plan in the School of Industrial and Labor Relations, the Johnson School, and the College of Veterinary Medicine.
- **Research center** expenditures were \$12.5 million more than budgeted as a result of growth in sponsored programs funding.
- **Centrally recorded financial aid** was \$12.4 million more than budgeted due to a slight growth in enrollments and a demand for graduate student aid that exceeded the amount planned for this category.
- **Administrative and support** costs were \$23.7 million less than planned as budgeted administrative systems costs were capitalized and changes were made in the pattern of Qatar expenses.
- The \$21 million decrease from plan in **physical plant** costs was due to project deferrals, debt service reductions, and the absence of anticipated state appropriations for maintenance.

Transfers Out to Other Funds

A total of \$41.7 million was transferred from current funds to **funds functioning as endowment**. Also, \$52.3 million was transferred to **plant funds** for renovation and maintenance projects and the capitalization of administrative systems.

Net from Operations

The year ended with a **net from operations** of \$36.2 million, which was only \$282 thousand less than planned. This net was added to **current fund balances** in all three divisions.

OPERATING PLAN REPORT – HIGHLIGHTS

University Operating Plan – Summary						
(dollars in thousands)						
	00-01	01-02	02-03	02-03	Change from	
	Actual	Actual	Plan	Actual	02-03	01-02
					Plan	Actual
Revenues & Transfers In						
1. Tuition & Fees	\$434,074	\$461,476	\$484,881	\$491,006	\$6,125	6.4%
2. Investment Distributions	173,267	184,751	181,527	184,652	3,125	(0.1%)
3. Unrestricted Gifts	61,919	56,946	45,835	52,872	7,037	(7.2%)
4. Restricted Gifts	100,106	110,056	103,180	128,220	25,040	16.5%
5. Sponsored Programs (direct costs)	278,505	314,680	312,641	357,669	45,028	13.7%
6. Sponsored Programs (indirect costs)	82,331	91,784	86,933	102,655	15,722	11.8%
7. Institutional Allowances	1,581	1,666	1,498	1,650	152	(1.0%)
8. State Appropriations	149,195	152,046	152,376	145,885	(6,491)	(4.1%)
9. Federal Appropriations	19,637	19,495	19,562	18,770	(792)	(3.7%)
10. Physician Organization (PO)	259,618	289,686	298,631	297,386	(1,245)	2.7%
11. NYPH (purchased services)	57,280	61,265	64,283	60,475	(3,808)	(1.3%)
12. Sales & Services of Enterprises	104,918	114,798	121,897	120,556	(1,341)	5.0%
13. Other Sources	<u>101,998</u>	<u>110,828</u>	<u>130,545</u>	<u>133,246</u>	<u>2,701</u>	20.2%
14. Total Revenues	1,824,429	1,969,477	2,003,789	2,095,042	91,253	6.4%
15. Transfers In from Endowment	8,523	9,800	9,112	19,883	10,771	102.9%
16. Transfers In from Plant Funds	<u>4,981</u>	<u>4,546</u>	<u>597</u>	<u>2,632</u>	<u>2,035</u>	(42.1%)
17. Total Resources Available	1,837,933	1,983,823	2,013,498	2,117,557	104,059	6.7%
Expenditures & Transfers Out						
18. Agriculture & Life Sciences	182,283	194,828	197,330	204,976	7,646	5.2%
19. Architecture, Art, & Planning	14,032	14,838	15,066	15,445	379	4.1%
20. Arts & Sciences	117,479	128,412	135,055	146,492	11,437	14.1%
21. Engineering	88,574	94,233	102,887	104,711	1,824	11.1%
22. Hotel Administration	38,336	39,970	37,811	39,751	1,940	(0.5%)
23. Human Ecology	39,164	42,831	43,050	42,907	(143)	0.2%
24. Industrial & Labor Relations	33,959	36,281	38,807	37,650	(1,157)	3.8%
25. Johnson School	31,902	32,159	35,825	34,628	(1,197)	7.7%
26. Law School	17,461	16,843	18,806	19,418	612	15.3%
27. Medical College (academic/clinical)	430,619	498,230	486,170	548,780	62,610	10.1%
28. Veterinary Medicine	<u>76,493</u>	<u>82,091</u>	<u>86,270</u>	<u>82,353</u>	<u>(3,917)</u>	0.3%
29. Subtotal Colleges	1,070,302	1,180,716	1,197,077	1,277,111	80,034	8.2%
30. Research Centers	71,388	78,620	73,587	86,103	12,516	9.5%
31. Other Academic Programs	94,572	100,878	105,539	101,998	(3,541)	1.1%
32. Centrally Recorded Financial Aid	104,182	116,569	112,382	124,777	12,395	7.0%
33. Student Services	84,112	93,673	97,776	94,882	(2,894)	1.3%
34. Administrative & Support	133,777	153,720	188,057	164,397	(23,660)	6.9%
35. Physical Plant	144,060	140,627	153,376	132,399	(20,977)	(5.9%)
36. All Other	<u>4,103</u>	<u>5,340</u>	<u>5,178</u>	<u>5,626</u>	<u>448</u>	5.4%
37. Total Expenditures	1,706,496	1,870,143	1,932,972	1,987,293	54,321	6.3%
38. Transfers Out to Endowment	36,489	19,733	19,020	41,710	22,690	111.4%
39. Transfers Out to Plant Funds	<u>36,692</u>	<u>47,056</u>	<u>25,015</u>	<u>52,345</u>	<u>27,330</u>	11.2%
40. Total Resources Used	1,779,677	1,936,932	1,977,007	2,081,348	104,341	7.5%
41. Net from Operations	58,256	46,891	36,491	36,209	(282)	
42. Change in Current Fund Balances	58,256	46,891	36,491	36,209	(282)	

University Operating Plan – Divisional Detail

(dollars in thousands)

	Endowed	Contract	Medical	02-03	02-03	Change
	Ithaca	Colleges	College	Actual	Plan	from
Revenues & Transfers In						Plan
1. Tuition & Fees	\$370,209	\$105,033	\$15,764	\$491,006	\$484,881	1.3%
2. Investment Distributions	131,228	21,474	31,950	184,652	181,527	1.7%
3. Unrestricted Gifts	40,311	10,322	2,239	52,872	45,835	15.4%
4. Restricted Gifts	50,344	8,198	69,678	128,220	103,180	24.3%
5. Sponsored Programs (direct costs)	140,076	116,780	100,813	357,669	312,641	14.4%
6. Sponsored Programs (indirect costs)	39,840	23,808	39,007	102,655	86,933	18.1%
7. Institutional Allowances		149	1,501	1,650	1,498	10.1%
8. State Appropriations	1,696	144,051	138	145,885	152,376	(4.3%)
9. Federal Appropriations		18,770		18,770	19,562	(4.1%)
10. Physician Organization (PO)			297,386	297,386	298,631	(0.4%)
11. NYPH (purchased services)			60,475	60,475	64,283	(5.9%)
12. Sales & Services of Enterprises	109,798		10,758	120,556	121,897	(1.1%)
13. Other Sources	49,234	37,655	46,357	133,246	130,545	2.1%
14. Inter-Unit Transfers	<u>(11,287)</u>	<u>11,287</u>				
15. Total Revenues	921,449	497,527	676,066	2,095,042	2,003,789	4.6%
16. Transfers In from Endowment	19,308	575		19,883	9,112	118.2%
17. Transfers In from Plant Funds	<u>1,935</u>	<u>697</u>		2,632	597	340.9%
18. Total Resources Available	942,692	498,799	676,066	2,117,557	2,013,498	5.2%
Expenditures & Transfers Out						
19. Agriculture & Life Sciences		204,976		204,976	197,330	3.9%
20. Architecture, Art, & Planning	15,445			15,445	15,066	2.5%
21. Arts & Sciences	146,492			146,492	135,055	8.5%
22. Engineering	104,711			104,711	102,887	1.8%
23. Hotel Administration	39,751			39,751	37,811	5.1%
24. Human Ecology		42,907		42,907	43,050	(0.3%)
25. Industrial & Labor Relations		37,650		37,650	38,807	(3.0%)
26. Johnson School	34,628			34,628	35,825	(3.3%)
27. Law School	19,418			19,418	18,806	3.3%
28. Medical College (academic/clinical)			548,780	548,780	486,170	12.9%
29. Veterinary Medicine		82,353		82,353	86,270	(4.5%)
30. Research Centers	86,103			86,103	73,587	17.0%
31. Other Academic Programs	95,351	6,647		101,998	105,539	(3.4%)
32. Centrally Recorded Financial Aid	113,667	1,099	10,011	124,777	112,382	11.0%
33. Student Services	94,882			94,882	97,776	(3.0%)
34. Administrative & Support	95,945	3,735	64,717	164,397	188,057	(12.6%)
35. Physical Plant	70,772	28,370	33,257	132,399	153,376	(13.7%)
36. All Other	2,788	2,838		5,626	5,178	8.7%
37. Intra-University Cost Distribution	<u>(71,736)</u>	<u>70,236</u>	<u>1,500</u>			
38. Total Expenditures	848,217	480,811	658,265	1,987,293	1,932,972	2.8%
39. Transfers Out to Endowment	36,728	4,982		41,710	19,020	119.3%
40. Transfers Out to Plant Funds	<u>42,816</u>	<u>5,153</u>	<u>4,376</u>	52,345	25,015	109.3%
41. Total Resources Used	927,761	490,946	662,641	2,081,348	1,977,007	5.3%
42. Net from Operations	14,931	7,853	13,425	36,209	36,491	
43. Change in Current Fund Balances	14,931	7,853	13,425	36,209	36,491	

OPERATING PLAN REPORT – DETAILS

ENDOWED ITHACA

Revenues and Transfers In

Revenues for 2002-03 totaled \$921.4 million, an increase of \$30.8 million, or 3.5 percent, from the plan and 6.2 percent higher than in 2001-02.

- **Tuition and fee** revenues were 1.9 percent greater than anticipated due to slight increases in undergraduate and graduate enrollments over planned levels.
- **Investment distributions**—derived primarily as budgeted payout from the Long Term Investment Pool (LTIP) and other invested sources—exceeded the plan by \$1.4 million and was 0.3 percent greater than in 2001-02. While there was no increase in the LTIP payout rate and the payout rate for short and intermediate term funds declined from 4 to 3 percent, there was an increase in investment principal from new gifts and other additions that offset slightly these rate effects.
- **Unrestricted gifts** were \$5.1 million higher than anticipated, while **restricted gifts** exceeded the plan by \$4.5 million. These increases resulted from growth in foundation support as well as gifts that will underwrite several construction projects and academic initiatives.
- **Direct cost** funding for **sponsored programs** was \$15 million more than planned and 17.5 percent greater than in 2001-02 as growth occurred in the Colleges of Arts and Sciences and Engineering, Computer and Information Sciences, and in several research centers (most notably, the Theory Center, the Center of Nanoscale Systems, and the Laboratory of Elemental and Particle Physics).
- **Indirect cost** funding for **sponsored programs** increased 15 percent from 2001-02, and was \$4.8 million more than budgeted, largely paralleling the growth in direct costs.
- **Sales and services of enterprises**, which were nearly as planned, increased 6.1 million over 2001-02 levels. While Campus Life, Real Estate, and the Cornell Store met or exceeded income targets, the University Press fell short of its revenue plan by \$1.3 million.
- **Inter-unit transfers** were \$8 million greater than planned as resources to support research and other university-wide initiatives were moved from endowed Ithaca to the contract colleges.

Transfers from **funds functioning as endowment** totaled \$19.3 million, reflecting the movement of funds to meet donor designations and the funding of recent construction, capital contributions, and debt service. Transfers from **plant funds** totaled \$1.9 million, and included amounts used to pay for equipment replacement and facility maintenance and renovation.

Expenditures and Transfers Out

Expenditures in 2002-03 totaled \$920 million, an increase of \$5.4 million, or 0.6 percent, from the plan and 4.9 percent higher than in 2001-02.

- **College** expenditures were \$15 million more than planned as increases in sponsored program expenditures in the Colleges of Arts and Sciences and Engineering combined with higher graduate student support costs in several colleges and schools.
- **Research center** expenditures totaled \$86.1 million, a 17 percent increase over the amount planned, with growth related directly to the above mentioned increase in sponsored programs funding.
- Centrally recorded **financial-aid** costs exceeded the plan by 9.5 percent due to increases in enrollments and graduate fellowship support.
- **Administrative and support** expenditures were \$9 million, or 8.6 percent, less than budgeted as planned administrative systems development costs were capitalized rather than being recorded as current fund expenditures. This change is also reflected in the transfer to plant funds below.
- Current fund **physical plant** expenditures were 19.8 percent less than planned due to savings from a restructuring of debt service.

Transfers to **funds functioning as endowment** totaled \$36.7 million as gifts were invested to provide future support for financial aid and other academic initiatives. Transfers to **plant funds**, which were recorded at \$42.8 million, funded administrative systems development and a variety of capital projects, including Duffield Hall and the West Campus Residential Initiative.

Net from Operations

The combination of these changes yielded a **net from operations** of \$14.9 million, most of which was added to designated reserves in **current funds**. There was a slight decrease in restricted fund reserves.

Endowed Ithaca (dollars in thousands)		00-01	01-02	02-03	02-03	Change from	
	Actual	Actual	Plan	Actual	02-03	01-02	
					Plan	Actual	
Revenues & Transfers In							
1. Tuition & Fees	\$331,723	\$351,230	\$363,444	\$370,209	\$6,765	5.4%	
2. Investment Distributions	126,707	130,901	129,793	131,228	1,435	0.3%	
3. Unrestricted Gifts	44,792	41,664	35,245	40,311	5,066	(3.2%)	
4. Restricted Gifts	49,863	50,337	45,877	50,344	4,467	0.0%	
5. Sponsored Programs (direct costs)	114,004	119,220	125,110	140,076	14,966	17.5%	
6. Sponsored Programs (indirect costs)	32,115	34,644	35,040	39,840	4,800	15.0%	
7. State Appropriations	1,974	1,791	2,115	1,696	(419)	(5.3%)	
8. Sales & Services of Enterprises	96,001	103,649	110,345	109,798	(547)	5.9%	
9. Other Sources	49,412	45,391	46,988	49,234	2,246	8.5%	
10. Inter-Unit Transfers	200	(10,906)	(3,306)	(11,287)	(7,981)	3.5%	
11. Total Revenues	846,791	867,921	890,651	921,449	30,798	6.2%	
12. Transfers In from Endowment	6,946	8,028	8,467	19,308	10,841	140.5%	
13. Transfers In from Plant Funds	4,637	3,646	447	1,935	1,488	(46.9%)	
14. Total Resources Available	858,374	879,595	899,565	942,692	43,127	7.2%	
Expenditures & Transfers Out							
15. Architecture, Art & Planning	14,032	14,838	15,066	15,445	379	4.1%	
16. Arts & Sciences	117,479	128,412	135,055	146,492	11,437	14.1%	
17. Engineering	88,574	94,233	102,887	104,711	1,824	11.1%	
18. Hotel Administration	38,336	39,970	37,811	39,751	1,940	(0.5%)	
19. Johnson School	31,902	32,159	35,825	34,628	(1,197)	7.7%	
20. Law School	17,461	16,843	18,806	19,418	612	15.3%	
21. Research Centers	71,388	78,620	73,587	86,103	12,516	9.5%	
22. Other Academic Programs	87,391	93,631	98,214	95,351	(2,863)	1.8%	
23. Centrally Recorded Financial Aid	94,663	104,998	103,774	113,667	9,893	8.3%	
24. Student Services	84,112	93,673	97,776	94,882	(2,894)	1.3%	
25. Administrative & Support	87,795	98,477	104,919	95,945	(8,974)	(2.6%)	
26. Physical Plant	81,410	77,592	88,280	70,772	(17,508)	(8.8%)	
27. Endowed Ithaca All Other	2,070	3,307	2,524	2,788	264	(15.7%)	
28. Gross Expenditures	816,613	876,753	914,524	919,953	5,429	4.9%	
Intra-University Cost Distribution							
29. Accessory Instruction	(15,971)	(16,487)	(17,221)	(17,221)		4.5%	
30. Administrative & Support	(37,211)	(39,329)	(41,537)	(42,207)	(670)	7.3%	
31. Financial Aid	(8,531)	(9,143)	(12,657)	(12,308)	349	34.6%	
32. Net Expenditures	754,900	811,794	843,109	848,217	5,108	4.5%	
33. Transfers Out to Endowment	31,696	14,634	18,720	36,728	18,008	151.0%	
34. Transfers Out to Plant Funds	28,065	39,526	16,703	42,816	26,113	8.3%	
35. Total Resources Used	814,661	865,954	878,532	927,761	49,229	7.1%	
36. Net from Operations	43,713	13,641	21,033	14,931	(6,102)		
Additions to/(Withdrawals from) Current Fund Balances							
37. General Purpose	44	47		41	41		
38. Designated	23,650	9,883	3,466	17,076	13,610		
39. Enterprise/Service	(598)	3,818	845	162	(683)		
40. Restricted	20,617	(107)	16,722	(2,348)	(19,070)		
41. Net Current Fund Changes	43,713	13,641	21,033	14,931	(6,102)		

GENERAL PURPOSE BUDGET

Revenues and Transfers In

Revenues for 2002-03 totaled \$390.1 million, an increase of \$11.9 million, or 3.1 percent, from the plan and 4.9 percent higher than in 2001-02.

- **Tuition and fee income** was 4.7 percent greater than budgeted. While freshman enrollments were as planned, sophomore, junior, and senior enrollments in the Colleges of Architecture, Art and Planning, Arts and Sciences, and Engineering were greater than called for in Cornell's overall, steady state enrollment target of about 7,150 for these colleges, resulting in \$8.8 million of additional revenue. Graduate student enrollments for these three colleges also surpassed the plan and resulted in tuition revenues that were \$3.8 million more than budgeted.
- **Investment distributions** (including the recovery of investment management expense), totaling \$61.2 million, fell short of the plan as the carryforward of a \$1.1 million expense overrecovery from 2001-02 combined with a \$1.7 million decline in outside investment management fees for 2002-03. The expenditure reductions associated with this decrease in recoveries are embedded in the category of *administrative and support* (line 22).
- **Unrestricted gifts** totaled \$4.3 million, a decline of 16.5 percent from the plan and 3.6 percent less than the amount received in 2001-02.
- **Indirect cost recoveries from sponsored programs** were recorded at \$39.8 million, a 13.7 percent increase over that planned, representing a 15 percent expansion from 2001-02. Growth occurred in the Colleges of Arts and Sciences and Engineering, Computer and Information Sciences, and in several research centers (most notably, the Theory Center, the Center of Nanoscale Systems, and the Laboratory of Elemental and Particle Physics).
- **State appropriations** of Bundy Aid for degrees granted by the Colleges of Architecture, Art and Planning, Arts and Sciences, and Engineering and the Graduate School were 20.4 percent less than planned and 2.9 percent less than received in 2001-02. An increase in the number of undergraduate and professional degrees granted was offset by declines in the number of doctoral degrees granted and the Bundy Aid reimbursement rates.

Allocations for Expenditure

Operating allocations totaled \$478.4 million in 2002-03, an increase of \$11.6 million, or 2.5 percent, from the plan and 6.3 percent more than in 2001-02.

- Allocations to **colleges, research centers, and other academic programs** increased \$7.4 million over the amount planned, reflecting in-year allocations of centrally budgeted funding for faculty recruitment and support, program initiatives, and research infrastructure and cost sharing.
- The general purpose allocation for **undergraduate financial aid** totaled \$45.2 million, an increase of 4.7 percent over the 2001-02 allocation. (See page 23 for additional information on financial aid.)
- Allocations for **graduate financial aid** were \$7.9 million, or 40.5 percent more than allocated in the continuing base, reflecting the in-year assignment of central funding to support the growing enrollment that has resulted from the graduate fellowship initiative.
- **Student service** allocations exceeded the plan by \$1.5 million, or 6.7 percent, due primarily to additional costs of student health services.
- **Administrative and support** allocations totaled \$93.5 million, \$6.4 million more than planned and 7.3 percent greater than in 2001-02. This growth included the in-year assignment of \$4.3 million for information technology initiatives, \$1.2 million for research administration and compliance activities, and other limited-term allocations.
- The category of **all other** decreased \$7.9 million from the plan as a result of the normal in-year budgetary process. This category contains the university's contingency and one-time and limited-term allocations that are budgeted centrally and transferred during the year to programs and units (and therefore are reported as allocated for expenditure on lines 12 through 23). *All other* also includes funding for initiatives in systems, staff training, and classroom renovation.

Net from Operations

The combination of these changes yielded a \$41 thousand **net from operations**, which was added to the **general purpose fund balance**.

General Purpose Budget (dollars in thousands)				Change from		
	00-01	01-02	02-03	02-03	02-03	01-02
	Actual	Actual	Plan	Actual	Plan	Actual
Revenues & Transfers In						
1. Tuition & Fees	\$247,668	\$264,130	\$265,398	\$277,845	\$12,447	5.2%
2. Investment Distributions	59,428	62,068	64,759	61,209	(3,550)	(1.4%)
3. Unrestricted Gifts	4,333	4,505	5,202	4,343	(859)	(3.6%)
4. Sponsored Programs (indirect costs)	32,115	34,644	35,040	39,840	4,800	15.0%
5. State Appropriations	1,603	1,460	1,780	1,417	(363)	(2.9%)
6. Other Sources	<u>9,332</u>	<u>5,120</u>	<u>6,025</u>	<u>5,427</u>	<u>(598)</u>	6.0%
7. Total Revenues	<u>354,479</u>	<u>371,927</u>	<u>378,204</u>	<u>390,081</u>	<u>11,877</u>	<u>4.9%</u>
8. Transfers In from Endowment						
9. Transfers In from Plant Funds						
10. Total Resources Available	<u>354,479</u>	<u>371,927</u>	<u>378,204</u>	<u>390,081</u>	<u>11,877</u>	<u>4.9%</u>
Allocations for Expenditure						
11. Architecture, Art, & Planning	9,232	10,170	10,899	11,014	115	8.3%
12. Arts & Sciences	89,438	96,124	101,147	102,102	955	6.2%
13. Engineering	34,956	38,148	39,802	41,209	1,407	8.0%
14. Johnson School	221	227	234	234		3.1%
15. Law School	409	750	750	750		
16. Research Centers	6,401	7,467	5,276	7,674	2,398	2.8%
17. Other Academic Programs	45,518	48,207	48,512	51,077	2,565	6.0%
18. Undergraduate Financial Aid	44,942	43,151	49,683	45,180	(4,503)	4.7%
19. Graduate Financial Aid	23,745	25,896	19,561	27,485	7,924	6.1%
20. Student Services	20,543	22,240	22,183	23,666	1,483	6.4%
21. Administrative & Support	79,853	87,148	87,188	93,543	6,355	7.3%
22. Physical Plant	50,481	52,682	54,643	55,401	758	5.2%
23. All Other	<u>22,256</u>	<u>17,627</u>	<u>26,922</u>	<u>19,049</u>	<u>(7,873)</u>	8.1%
24. Gross Expense Allocation	<u>427,995</u>	<u>449,837</u>	<u>466,800</u>	<u>478,384</u>	<u>11,584</u>	<u>6.3%</u>
Intra-University Cost Distribution						
25. Accessory Instruction	(12,410)	(12,415)	(13,458)	(12,780)	678	2.9%
26. Administrative & Support	(52,619)	(56,399)	(62,481)	(63,256)	(775)	12.2%
27. Financial Aid	<u>(8,531)</u>	<u>(9,143)</u>	<u>(12,657)</u>	<u>(12,308)</u>	<u>349</u>	34.6%
28. Net Cost Distribution	<u>(73,560)</u>	<u>(77,957)</u>	<u>(88,596)</u>	<u>(88,344)</u>	<u>252</u>	<u>13.3%</u>
29. Transfers Out to Endowment						
30. Transfers Out to Plant Funds						
31. Total Resources Used	<u>354,435</u>	<u>371,880</u>	<u>378,204</u>	<u>390,040</u>	<u>11,836</u>	<u>4.9%</u>
32. Net from Operations	44	47		41	41	
Additions to/(Withdrawals from) Current Fund Balances						
33. General Purpose	44	47		41	41	
34. Designated	—	—		—	—	
35. Net Current Fund Changes	44	47		41	41	

CONTRACT COLLEGES

Revenues and Transfers In

Revenues for 2002-03 totaled \$497.5 million, an increase of \$13.3 million, or 2.7 percent, from the plan and 2.9 percent over 2001-02.

- **Tuition and fees** were 1 percent less than planned as enrollment shortfalls in the College of Agriculture and Life Sciences (CALs) were only partially offset by increases in the School of Industrial and Labor Relations (ILR). Tuition and fee revenues were 10.1 percent greater than in 2001-02 due to the growth in tuition rates and an increase in non-resident students, who pay higher tuitions.
- **Investment distributions** were 4.6 percent more than planned due to growth in invested fund balances in the College of Human Ecology and ILR.
- **Unrestricted gifts** were 25.9 percent greater than planned due primarily to a corporate gift for the Laboratory of Ornithology in CALs and variety of bequests and donor gifts to the College of Veterinary Medicine (CVM).
- **Direct funding for sponsored programs** was \$9.9 million greater than planned as grant and contract activity increased in Plant Genomics and a change was made in the recording of extension grants (which had been shown previously as *federal appropriations*). **Indirect cost recoveries** exceeded the plan by 16.6 percent due to the increase in direct funding for sponsored programs.
- **State appropriations** totaled \$144.1 million, \$6 million less than planned, as New York State's ongoing financial difficulties led to reduced appropriation levels at the State University of New York (SUNY) and Cornell's contract colleges. Cornell experienced a \$3.3 million dollar reduction in base allocation and received \$2.7 million less than planned for facility renovations and maintenance.
- **Federal appropriations** were 4 percent less than planned due to the above described change in recording extension grants.
- **Other sources**, including departmental sales and services, were \$3.1 million less than planned due to a drop in extension income in ILR and CALs as well as a decline in royalty revenues in CALs.
- **Inter-unit transfers** (which reflect the allocation of resources from the endowed Ithaca division) were \$8 million more than planned due to enhanced

funding for research, equipment, faculty support, animal care, and university-wide academic initiatives, particularly in the field of life sciences.

Transfers from **plant funds** were \$547 thousand more than planned, providing funding for the construction of the Laboratory of Ornithology's new facility and renovation projects in ILR and CVM.

Expenditures and Transfers Out

Net expenditures totaled \$480.8 million as planned, representing a 3.5 percent increase over that recorded in 2001-02.

- The combined increase for the **contract colleges** (including the Geneva Experiment Station under CALs) was \$2.4 million more than planned. This growth was due to increased sponsored program activity in CALs, which was offset partially by declines from the plan in CVM's level of sponsored program expenditures.
- **Other academic programs** were 9.3 percent less than planned due to a reduction in federal appropriations and a prior-year expense adjustment.
- **Centrally recorded financial aid**, which was not budgeted for the contract colleges, included \$1.1 million of Supplemental Educational Opportunity Grant awards for contract college students, an amount slightly less than expended in prior years.
- **Physical plant** expenditures were \$3.1 million less than planned as reductions in available state renovation and maintenance funding combined with the carry-forward of funds into 2003-04 to pay for a portion of remediation costs at the radiation disposal site.

Transfers to **funds functioning as endowment** were \$4.7 million more than planned, reflecting the effort to invest departmental balances and gift funds for the long term. Transfers to **plant funds**, which were less than planned, included funding for capital projects for the Baker Institute, the Laboratory of Ornithology, animal services, and radiation disposal remediation.

Net from Operations

These changes, which yielded a \$7.9 million **net from operations** (\$9.9 million more than planned), resulted mainly in additions to designated **fund balances**.

Contract Colleges (dollars in thousands)	00-01	01-02	02-03	02-03	Change from	
	Actual	Actual	Plan	Actual	02-03	01-02
					Plan	Actual
Revenues & Transfers In						
1. Tuition & Fees	\$88,359	\$95,433	\$106,141	\$105,033	(\$1,108)	10.1%
2. Investment Distributions	18,239	21,117	20,533	21,474	941	1.7%
3. Unrestricted Gifts	12,118	9,744	8,200	10,322	2,122	5.9%
4. Restricted Gifts	10,478	7,602	8,336	8,198	(138)	7.8%
5. Sponsored Programs (direct costs)	91,002	108,321	106,906	116,780	9,874	7.8%
6. Sponsored Programs (indirect costs)	18,952	22,264	20,411	23,808	3,397	6.9%
7. Institutional Allowances	162	230	33	149	116	(35.2%)
8. State Appropriations	146,978	150,066	150,057	144,051	(6,006)	(4.0%)
9. Federal Appropriations	19,637	19,495	19,562	18,770	(792)	(3.7%)
10. Other Sources	36,547	38,539	40,737	37,655	(3,082)	(2.3%)
11. Inter-Unit Transfers	(200)	10,906	3,306	11,287	7,981	3.5%
12. Total Revenues	<u>442,272</u>	<u>483,717</u>	<u>484,222</u>	<u>497,527</u>	<u>13,305</u>	<u>2.9%</u>
13. Transfers In from Endowment	1,577	1,772	645	575	(70)	(67.6%)
14. Transfers In from Plant Funds	<u>344</u>	<u>900</u>	<u>150</u>	<u>697</u>	<u>547</u>	<u>(22.6%)</u>
15. Total Resources Available	<u>444,193</u>	<u>486,389</u>	<u>485,017</u>	<u>498,799</u>	<u>13,782</u>	<u>2.6%</u>
Expenditures & Transfers Out						
16. Agriculture & Life Sciences	182,283	194,828	197,330	204,976	7,646	5.2%
17. Human Ecology	39,164	42,831	43,050	42,907	(143)	0.2%
18. Industrial & Labor Relations	33,959	36,281	38,807	37,650	(1,157)	3.8%
19. Veterinary Medicine	76,493	82,091	86,270	82,353	(3,917)	0.3%
20. Other Academic Programs	7,181	7,247	7,325	6,647	(678)	(8.3%)
21. Centrally Recorded Financial Aid	1,239	1,287		1,099	1,099	(14.6%)
22. Administrative & Support	4,340	4,017	3,639	3,735	96	(7.0%)
23. Physical Plant	30,818	30,184	31,478	28,370	(3,108)	(6.0%)
24. Contract College All Other	<u>2,033</u>	<u>2,033</u>	<u>2,654</u>	<u>2,838</u>	<u>184</u>	<u>39.6%</u>
25. Gross Expenditures	<u>377,510</u>	<u>400,799</u>	<u>410,553</u>	<u>410,575</u>	<u>22</u>	<u>2.4%</u>
Intra-University Cost Distribution						
26. Accessory Instruction	15,971	16,487	17,221	17,221		4.5%
27. Administrative & Support	36,435	38,129	40,037	40,707	670	6.8%
28. Financial Aid	<u>8,531</u>	<u>9,143</u>	<u>12,657</u>	<u>12,308</u>	<u>(349)</u>	<u>34.6%</u>
29. Net Expenditures	<u>438,447</u>	<u>464,558</u>	<u>480,468</u>	<u>480,811</u>	<u>343</u>	<u>3.5%</u>
30. Transfers Out to Endowment	4,538	5,099	300	4,982	4,682	(2.3%)
31. Transfers Out to Plant Funds	<u>6,314</u>	<u>4,240</u>	<u>6,312</u>	<u>5,153</u>	<u>(1,159)</u>	<u>21.5%</u>
32. Total Resources Used	<u>449,299</u>	<u>473,897</u>	<u>487,080</u>	<u>490,946</u>	<u>3,866</u>	<u>3.6%</u>
33. Net from Operations	(5,106)	12,492	(2,063)	7,853	9,916	
Additions to/(Withdrawals from) Current Fund Balances						
34. General Purpose	389	1,504	(239)	366	605	
35. Designated	(4,237)	8,293	(2,031)	7,541	9,572	
36. Restricted	<u>(1,258)</u>	<u>2,695</u>	<u>207</u>	<u>(54)</u>	<u>(261)</u>	
37. Net Current Fund Changes	(5,106)	12,492	(2,063)	7,853	9,916	

MEDICAL COLLEGE

Revenues and Transfers In

Revenues for 2002-03 for the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences totaled \$676.1 million, an increase of \$47.2 million, or 7.5 percent, from the plan and 9.4 percent over 2001-02.

- **Gifts** received for **unrestricted** or internally designated purposes were slightly less than planned, dropping to \$2.2 million. **Restricted gifts**, including monies received for purposes specified by the donors, exceeded the plan by 42.3 percent, or \$20.7 million, and were 33.7 percent greater than recorded in 2001-02. These increases were due mainly to greater than anticipated annual gift contributions and campaign gifts raised for the Strategic Plans for Research and Advancing the Clinical Mission.
- **Sponsored programs direct cost** revenues totaled \$100.8 million, a \$13.6 million, or 15.7 percent, increase from 2001-02. This growth included increases from the prior year of \$9.5 million in government funding and \$4.1 million in private grant support. Faculty recruited as part of the Strategic Plan accounted for \$6.9 million of the total government support. **Indirect cost recoveries** from **sponsored programs** reached \$39 million in 2002-03, a \$4.1 million, or 11.8 percent, growth from the prior year.
- The **Physician Organization (PO)** reported revenues of \$286.5 million, representing a slight (0.5 percent) decrease from the plan but a 2.5 percent increase over the amount received in 2001-02. This growth was fueled by the introduction of new programs and the expansion of existing clinical practices that resulted in the increase of both gross patient revenues and physician fee receipts.
- Revenues for services purchased by the **New York-Presbyterian Hospital (NYPH)** from the Medical College netted \$60.5 million, a 1.3 percent decrease from the net of 2001-02. These revenues represent payments for the supervision and training of NYPH residents and other hospital-related functions.
- Revenues received from the **Qatar Foundation** included \$29.4 million of direct support, exclusive of the management fee. Budgetary cost savings

and changes in the timing of faculty appointments have resulted in an unexpended balance of \$17 million (see line 20), which will be credited against costs in 2003-04.

Line 16 has been restated to remove **transfers in from endowment** and expenditures related to those resources (formerly embedded in line 19), both of which are now treated as non-current activities.

Expenditures and Transfers Out

Net expenditures in 2002-03 were \$658.3 million, an increase of \$48.9 million, or 8 percent, from the plan and 10.9 percent more than in 2001-02.

- Expenditures for **academic and clinical departments**, including the PO, increased 8 percent over the prior year total, to \$531.8 million. This growth resulted from expansion in two areas: a) higher PO-related expenditures due to escalating mal-practice premiums, new program costs related to the Strategic Plan, and medical service agreement contracts and b) sponsored program costs related to federal government and private foundation funding.
- **Administrative and support** costs decreased \$14.8 million, or 18.6 percent, from the plan, to \$64.7 million. This decline in budgeted expenditures was due mainly to changes in Qatar expenses, offset partially by ongoing costs for student services and academic and administrative support.
- **Physical plant** expenditures totaled \$33.3 million, a 1.2 percent increase from the prior year, reflecting a combination of decreased debt service payments and increased utilities and insurance costs.

Transfers to **plant funds** of \$4.4 million included the purchase of equipment and the application of current funds for various capital projects.

Net from Operations

The combination of these factors yielded a **net from operations** of \$13.4 million, which was added to **current fund balances**. This surplus included the addition of \$10.4 million to restricted funds that will be used in future years, based on donor and grantor restrictions.

Medical College (dollars in thousands)		00-01	01-02	02-03	02-03	Change from	
	Actual	Actual	Plan	Actual	Plan	02-03	01-02
						Plan	Actual
Revenues & Transfers In							
1. Tuition & Fees	\$13,992	\$14,813	\$15,296	\$15,764	\$468	6.4%	
2. Investment Distributions	28,321	32,733	31,201	31,950	749	(2.4%)	
3. Unrestricted Gifts	5,009	5,538	2,390	2,239	(151)	(59.6%)	
4. Restricted Gifts	39,765	52,117	48,967	69,678	20,711	33.7%	
5. Sponsored Programs (direct costs)	73,499	87,139	80,625	100,813	20,188	15.7%	
6. Sponsored Programs (indirect costs)	31,264	34,876	31,482	39,007	7,525	11.8%	
7. Institutional Allowances	1,419	1,436	1,465	1,501	36	4.5%	
8. State Appropriations	243	189	204	138	(66)	(27.0%)	
9. Physician Organization (PO)	250,127	279,424	287,943	286,482	(1,461)	2.5%	
10. Institutional Development (PO)	9,491	10,262	10,688	10,904	216	6.3%	
11. NYPH (purchased services)	57,280	61,265	64,283	60,475	(3,808)	(1.3%)	
12. Sales & Services of Enterprises	8,917	11,149	11,552	10,758	(794)	(3.5%)	
13. Qatar	2,452	10,326	29,464	29,358	(106)	184.3%	
14. Other Sources	<u>13,587</u>	<u>16,572</u>	<u>13,356</u>	<u>16,999</u>	<u>3,643</u>	2.6%	
15. Total Revenues	535,366	617,839	628,916	676,066	47,150	9.4%	
16. Transfers In from Endowment †							
17. Transfers In from Plant Funds							
18. Total Resources Available	535,366	617,839	628,916	676,066	47,150	9.4%	
Expenditures & Transfers Out							
19. Medical College (academic/clinical)	430,056	492,336	486,170	531,823	45,653	8.0%	
20. Return to Qatar Foundation	563	5,894		16,957	16,957	187.7%	
21. Centrally Recorded Financial Aid	8,280	10,284	8,608	10,011	1,403	(2.7%)	
22. Administrative & Support	41,642	51,226	79,499	64,717	(14,782)	26.3%	
23. Physical Plant	<u>31,832</u>	<u>32,851</u>	<u>33,618</u>	<u>33,257</u>	<u>(361)</u>	1.2%	
24. Expenditures	512,373	592,591	607,895	656,765	48,870	10.8%	
Intra-University Cost Distribution							
25. Administrative & Support	<u>776</u>	<u>1,200</u>	<u>1,500</u>	<u>1,500</u>		25.0%	
26. Net Expenditures	513,149	593,791	609,395	658,265	48,870	10.9%	
27. Transfers Out to Endowment	255						
28. Transfers Out to Plant Funds	<u>2,313</u>	<u>3,290</u>	<u>2,000</u>	<u>4,376</u>	<u>2,376</u>	33.0%	
29. Total Resources Used	515,717	597,081	611,395	662,641	51,246	11.0%	
30. Net from Operations	19,649	20,758	17,521	13,425	(4,096)		
Additions to/(Withdrawals from) Current Fund Balances							
31. General Purpose	3,476	4,356		4,610	4,610		
32. Designated	3,848	4,222	4,017	(1,321)	(5,338)		
33. Enterprise/Service	208	1,290	108	(284)	(392)		
34. Restricted	<u>12,117</u>	<u>10,890</u>	<u>13,396</u>	<u>10,420</u>	<u>(2,976)</u>		
35. Net Current Fund Changes	19,649	20,758	17,521	13,425	(4,096)		

Note: † This schedule has been restated to remove transfers in from endowment and expenditures related to those resources, both of which are now treated as non-current activities.

SPECIAL TOPICS – 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 \$3.62 billion as of June 30, 2003. (See table below.)

- The total fair value of investments increased \$73.2 million, or 2.1 percent, during 2002-03.
- The Long Term Investment Pool (LTIP) constituting 75.1 percent, or \$2.72 billion, of total invested funds. Intermediate-term funds and separately invested securities represented 14 percent and 8.8 percent respectively, while other categories accounted for the remainder.
- The university maintains a small pool of working capital and a line of credit that are used to meet the daily cash flow of disbursements. Intermediate-term investments represent 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 these funds were being held for investment 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 will discontinue its practice of distributing investment returns for these assets at the individual account level.

LTIP Portfolio and Performance

The LTIP is managed by Cornell's Investment Office staff, who oversee more than 150 investment accounts and partnerships with external investment fund managers. The LTIP's investment performance in 2002-03 was consistent with overall market conditions, outperforming some component market benchmarks.

- A key component in Cornell's investment strategy is the maintenance of a diversified portfolio (shown below as of June 30, 2003).

Domestic equity (unhedged)	32.8%
Domestic equity (hedged/technology)	13.2%
Low correlation (private equity/real estate)	13.7%
Foreign equity	11.3%
eCornell	0.8%
Fixed income	<u>28.2%</u>
Total	100.0%

This portfolio is rebalanced periodically to maintain a ratio of equity to fixed income at 70 percent to 30 percent, \pm 2.5 percentage points. As of June 30, 2003, the LTIP's equity-to-fixed exposure stood at 72:28, a balance that was within trustee-established limits.

- The value of an LTIP share decreased \$2.30, or 5.1 percent, during 2002-03 as the payout per share exceeded the total return on investment.
- The number of LTIP shares grew 4.3 percent from 2001-02, reflecting the addition of \$124.3 million in new principal, primarily from gifts.
- The LTIP experienced a 2.05 percent annualized gross return (1.9 percent when adjusted for investment management fees), which was slightly less

Investments at Fair Value

(dollars in thousands at year end)

	6/30/02 Total	Percent of Total	6/30/03 Total	Percent of Total	Change from 6/30/02
1. Working Capital	\$1,531	0.0%	\$11,827	0.3%	\$10,296
2. Intermediate-Term Investments	418,228	11.8%	508,790	14.0%	90,562
3. Long Term Investment Pool	2,750,401	77.5%	2,720,790	75.1%	(29,611)
4. Separately Invested Securities	287,843	8.1%	317,349	8.8%	29,506
5. Life Income Pools	21,435	0.6%	20,900	0.6%	(535)
6. DASNY Holdings *	66,585	1.9%	39,923	1.1%	(26,662)
7. Other Purposes of Investment	<u>3,741</u>	<u>0.1%</u>	<u>3,387</u>	<u>0.1%</u>	<u>(354)</u>
8. Total	3,549,764	100.0%	3,622,966	100.0%	73,202

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

than the 3.4 percent return of the Russell/Mellon Analytical Services' TUCS endowment composite. Component benchmark comparisons included:

Domestic equity (growth/unhedged)	0.7%
<i>Russell 1000 Growth</i>	2.9%
Domestic equity (opportunistic)	25.9%
<i>S&P 500</i>	0.3%
Domestic equity (value/unhedged)	(2.5%)
<i>Russell 1000 value</i>	(1.0%)
Global (hedged)	6.9%
<i>MSCI World</i>	(1.9%)
Technology (hedged)	4.6%
<i>Lipper Science & Technology</i>	6.6%
Overall domestic equity	2.0%
<i>S&P 500</i>	0.3%
Overall foreign equity	(5.0%)
<i>MSCI EAFE</i>	(6.0%)
Overall fixed income	13.1%
<i>Lehman Aggregate</i>	10.4%

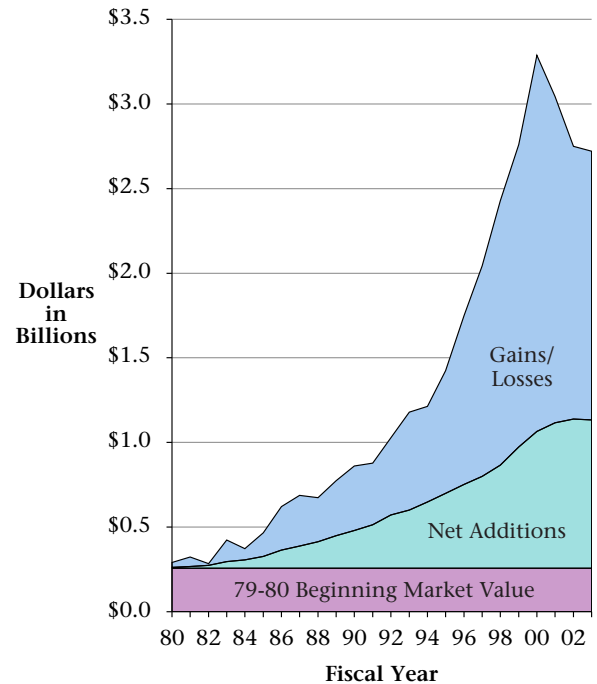
The LTIP has experienced significant growth since its creation in 1979, allowing it to pay out a total of \$1.324 billion to shareholders over this period.

- The market value of the LTIP has increased \$2.465 billion over the past 24 years, from \$256 million to \$2.721 billion. (See graph at right.)
- Additions, net of withdrawals, have accounted for 36 percent of the cumulative growth. Realized and unrealized gains (net of losses) on the initial market value and all net additions have accounted for the remaining 64 percent.

Investment Strategy and Payout Policy

The LTIP was created in 1979, when the trustees combined the assets of the Endowment Fund (containing

Cumulative Change in LTIP Market Value

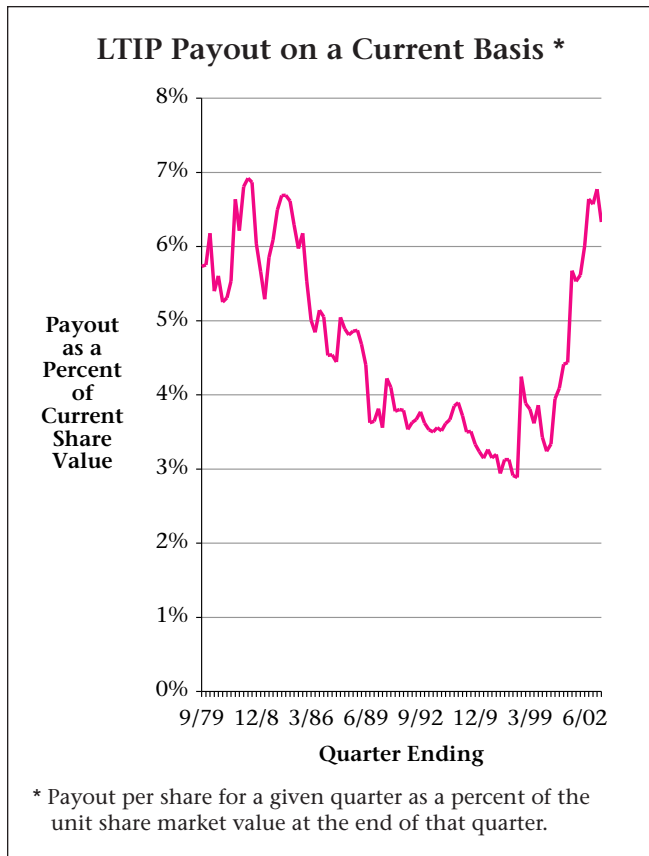


true endowments) and the Capital Fund (holding funds that functioned as endowments). Previously, each fund had its own approach to investment and payout. The initial investment strategy for the newly created LTIP was aimed at ensuring sufficient income for annual payout. Through the early 1980's, LTIP payout was relatively high, averaging 6 percent of current market values. (See graph at the top left of page 18.) Because of the difficulty in producing sufficient income, the payout was held flat for several years. In 1988-89, the trustees created a new approach for the LTIP that focused on maximizing total return.

Long Term Investment Pool

	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
1. Market Value (per share)	\$47.65	\$51.16	\$58.16	\$51.85	\$44.95	\$42.65
2. Annualized Gross Total Return †	18.5%	12.5%	18.8%	(6.4%)	(7.5%)	2.05%
3. Payout per Share	\$1.38	\$1.85	\$1.94	\$2.30	\$2.70	\$2.70
4. Shareholder Payout (in millions)	\$68.47	\$95.71	\$106.68	\$131.80	\$160.55	\$167.55
5. Payout as of June 30th Market Value	2.9%	3.6%	3.3%	4.4%	6.0%	6.3%
6. Number of Shares (in millions)	51.0	54.0	56.5	58.7	61.2	63.8

Note: † Total returns net of investment management fees for 1998-99, 1999-2000, 2000-01, 2001-02, and 2002-03 were 12.2%, 18.5%, (6.7%), (7.7%), and 1.9% respectively.



The trustees employed outside investment managers, diversified the portfolio, and lowered the payout. Once these adjustments were made, the payout for each coming year could grow theoretically at a steady rate, as long as the proposed payout stayed within the range of 4.4 percent \pm 50 basis points of a five-year rolling average of quarterly unit share values (measured through the end of the prior fiscal year).

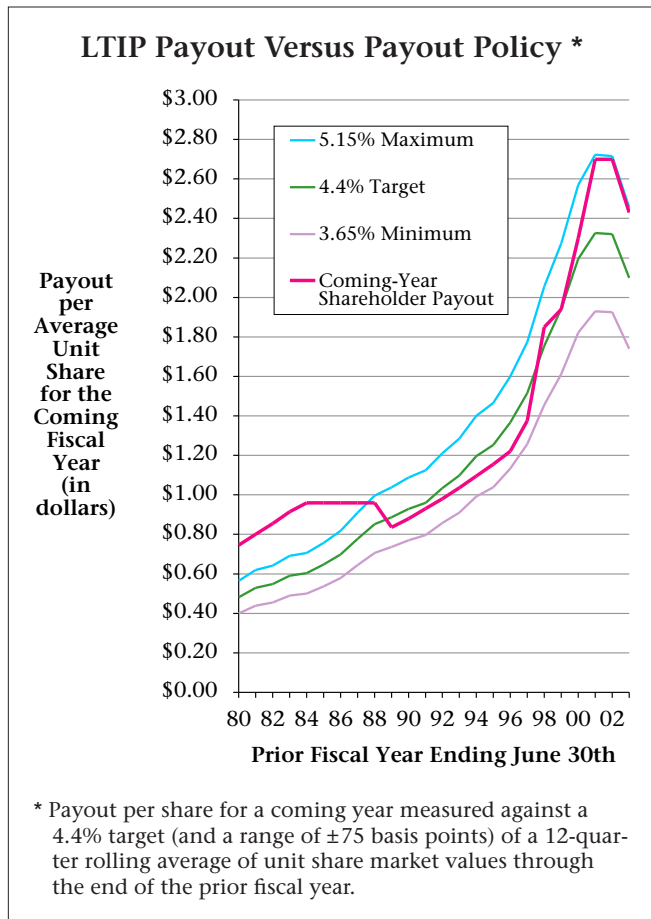
As a result of these changes the LTIP payout remained within the policy's guidelines. However, the LTIP payout drifted below the 4.4 percent target when measured on a current basis. (See graph above.) This decrease was due partially to the lag effect introduced in the model by the use of a five-year rolling average. The lag effect was exacerbated by the strong investment performance of the LTIP of the 1990's, which forced payout to drop even farther, sometimes below 3 percent on a current basis. A low payout means that too much of the total return is being reinvested to protect against inflation. Low payouts also interfere in fund-raising efforts, as potential donors are sometimes concerned about making substantial endowment gifts that have minimal operational impact.

Modifications in LTIP Payout Policy

To address these problems the trustees made several modifications to the LTIP payout policy (which took effect beginning in 1998-99).

- The rolling average of quarterly unit share values used to gauge payout was reduced from five years to three to make the model more sensitive to recent market experience.
- While the payout target of 4.4 percent of this rolling average was maintained, the range that the payout may fluctuate around the target was increased from \pm 50 to \pm 75 basis points.
- The annual payout growth rate was lowered from 5.6 to 5.0 percent.
- Shareholder payout was readjusted—to \$1.85 per unit share—to get it back on target.

The investment experience and payout rates for the life of the LTIP are shown in the graph below. The recent downturn in LTIP investment performance coupled with several stepped increases in payout have



forced the payout level to rise to the maximum of the payout policy's acceptable range and track that ceiling. The university continues to monitor and 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-six percent of all of the endowment that Cornell actively manages is invested in the LTIP. (The other 4 percent is separately invested or temporarily held in an intermediate-term investment vehicle.) In turn, the LTIP is almost totally composed of endowment—95.7 percent as of June 30, 2003. (The other 4.3 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 eight years payout from the LTIP has more than tripled. While 60 percent of this increase was due to growth in the payout rate, 40 percent was attributable to the additions of new principal, mostly from gifts.
- Position and financial-aid endowments account for 55 percent of the LTIP payout distributed to Ithaca Campus programs.

The increase in endowment donations and the dedication of those gifts to support positions and financial aid are legacies of the Cornell Campaign, which was

LTIP Payout Distribution

(dollars in millions)

	<u>94-95</u>	<u>02-03</u>	<u>Change</u>
Endowed Positions	\$9.83	\$29.96	\$20.13
Instruction	5.89	20.59	14.70
Research	0.55	1.40	0.85
Public Service	0.43	1.54	1.11
Academic Support	0.37	1.70	1.33
Library	1.05	3.91	2.86
Student Services	0.56	1.95	1.39
Administrative/Support	0.14	1.35	1.21
Physical Plant	1.02	2.76	1.74
Financial Aid/Loan	11.01	41.24	30.23
Other Activities	1.60	9.12	7.52
University-Wide	<u>5.44</u>	<u>14.91</u>	<u>9.47</u>
Subtotal Ithaca Campus	37.89	130.43	92.54
Medical College	7.83	29.81	21.98
Non-University Funds *	<u>2.92</u>	<u>7.33</u>	<u>4.41</u>
Total	48.64	167.57	118.93

Note: * Funds managed but not owned by Cornell.

completed in 1995. Almost one-quarter of the \$1.5 billion raised during that campaign was donated for position support and financial aid, much of it in the form of endowments. In December 1999, the university completed a successful campaign to raise over \$173 million for undergraduate financial-aid endowments, further enlarging the total amount of such funds.

Endowment – Net Assets

(dollars in thousands at year end)

	<u>01-02</u>	<u>02-03</u>	<u>Change</u>	<u>Percent Change</u>
1. True Endowment & Unspent Earnings	1,928,354	1,891,570	(36,784)	(1.9%)
2. Funds Functioning as Endowment	<u>791,508</u>	<u>817,422</u>	<u>25,914</u>	3.3%
3. Subtotal Under Cornell Investment Management	2,719,862	2,708,992	(10,870)	(0.4%)
4. True Endowment – Contribution Receivable †	66,412	59,870	(6,542)	(9.9%)
5. Funds Held in Trust by Others *	<u>133,880</u>	<u>145,779</u>	<u>11,899</u>	8.9%
6. Subtotal Funds External to Cornell	200,292	205,649	5,357	2.7%
7. Total University Endowment	2,920,154	2,914,641	(5,513)	(0.2%)

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

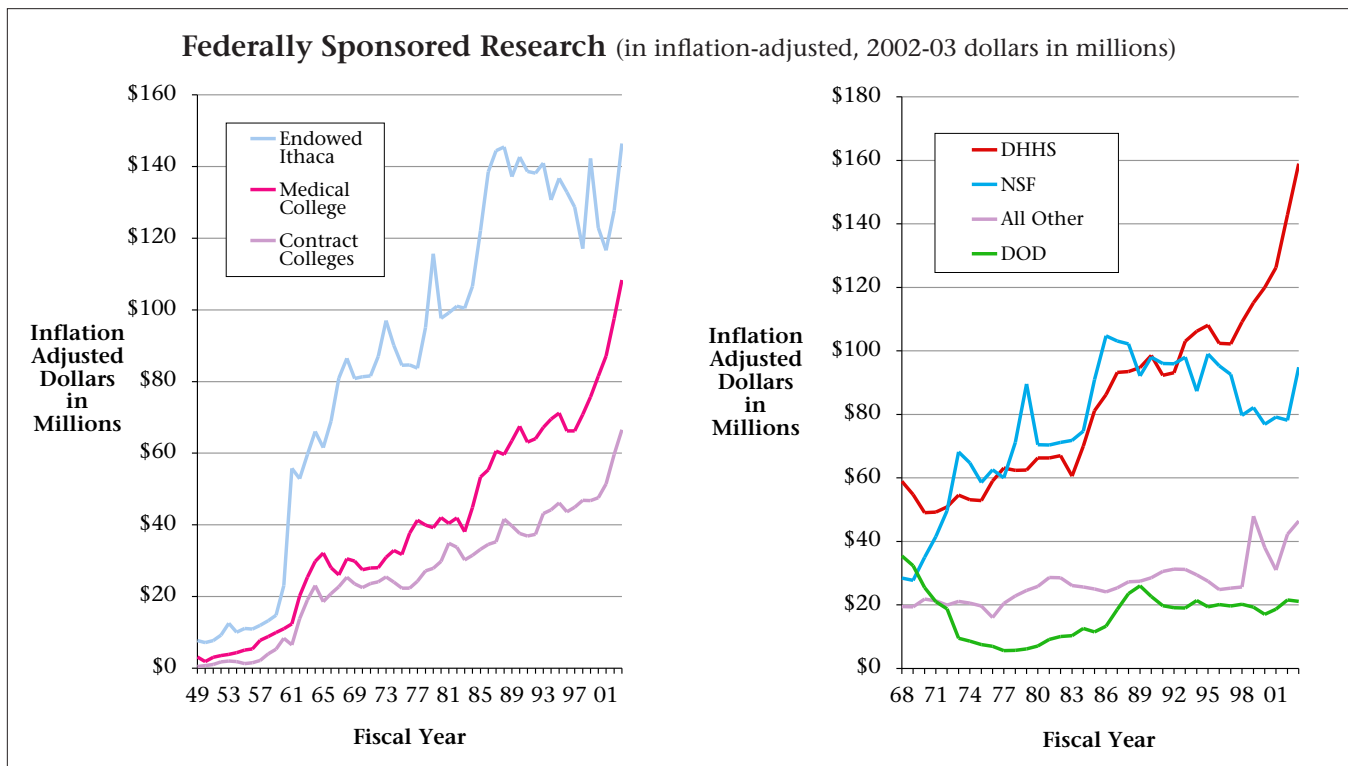
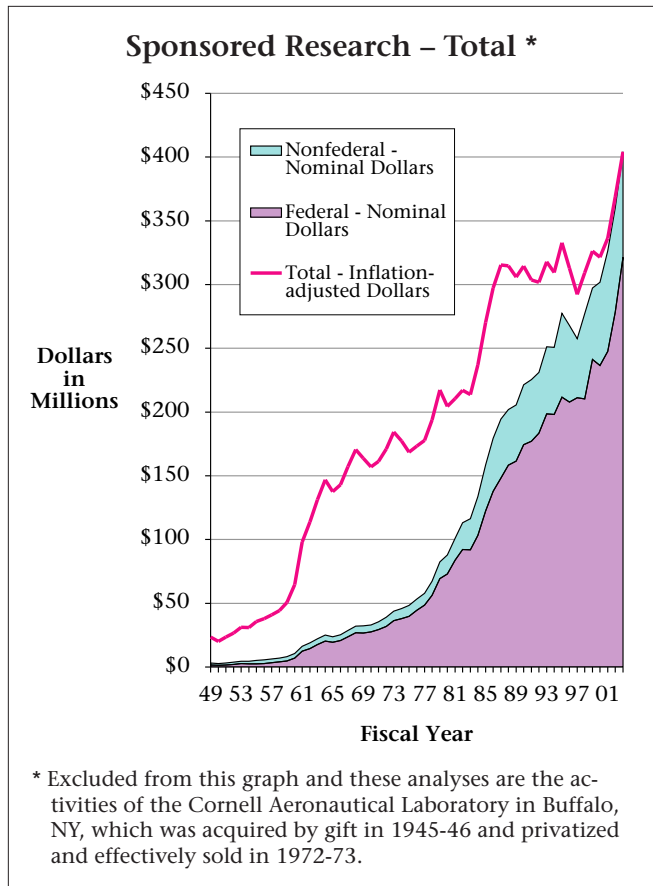
* Funds that the university neither possesses nor controls but which provide Cornell income or in which the university has a residual interest in the assets.

SPECIAL TOPICS – RESEARCH

Sponsored Research

Sponsored research reached \$404 million in 2002-03, a 12.3 percent increase from 2001-02, with the federal government accounting for 80 percent of that total. (See graph at right.) The pattern of federally sponsored research has changed since the end of World War II, when Cornell emerged as a major research university.

- Funding has grown at an average annual rate of 10.4 percent, or 6.4 percent in inflation-adjusted terms, since 1948-49. 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). In inflation-adjusted terms, endowed Ithaca research support plateaued in the mid-1980's, and has only recently rebounded. 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 National Science Foundation (NSF), the Department of Health and Human Services (DHHS), and the Department of Defense (DOD)—dominate. (See graph below at right.) Support from these three agencies is not distributed uniformly. Eighty-six percent of all NSF and DOD funding goes to endowed Ithaca while 66



percent of DHHS support goes to the medical division (with 19 percent going to the contract colleges and 15 percent to endowed Ithaca).

- It is the increase in DHHS funding that has fueled the steady expansion in federal research for the 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.

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 indirect costs incurred by the university in supporting a project, such as depreciation; operation, maintenance, and utility costs of facilities; libraries; and administrative costs.

Since F&A costs cannot be associated discretely with a particular project they are paid for through a rate-recovery system. The rules governing these rates are prescribed by the federal government, in the *Office of Management and Budget Circular A-21*. All of the university's indirect costs for one year—called the base year—are identified and assigned to different functions, including research. In theory, the portion allocated to research is divided by the total direct costs of research for that year, resulting in an F&A rate. In practice, full cost recovery is limited by several factors.

- Certain categories, while legitimate costs of operating a university, are not eligible for recovery. For example, fund-raising costs are not allowable, 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 are provided by formula, regardless of actual cost. For example, even though research incurs a higher proportion of utilities costs than

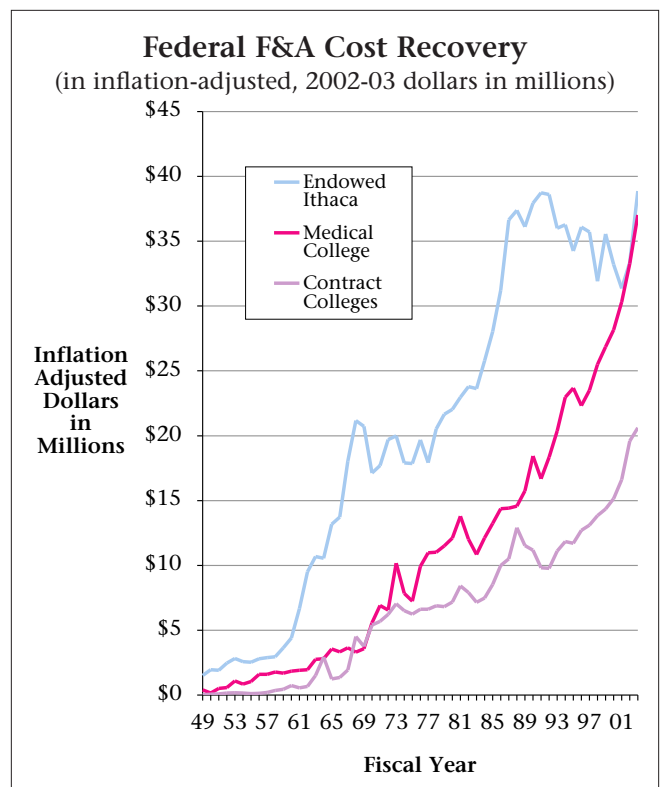
other functions, Cornell cannot use a special study to identify and recover the full amount.

- The cost 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, such as the construction of new research facilities. Also, recoveries are limited by certain conventions.

- Many federal programs—especially those that support graduate training and agricultural research—do not permit the payment of the full F&A rate.
- Some activities, particularly in the contract colleges, are considered part of the university's public service mission, and are therefore funded at a discounted cost by the sponsor.

In inflation-adjusted dollars, F&A recoveries by division from federal sources for research and nonresearch activities have historically paralleled total expenditures for research, accounting for \$96.5 million in 2002-03. (See graph below.)



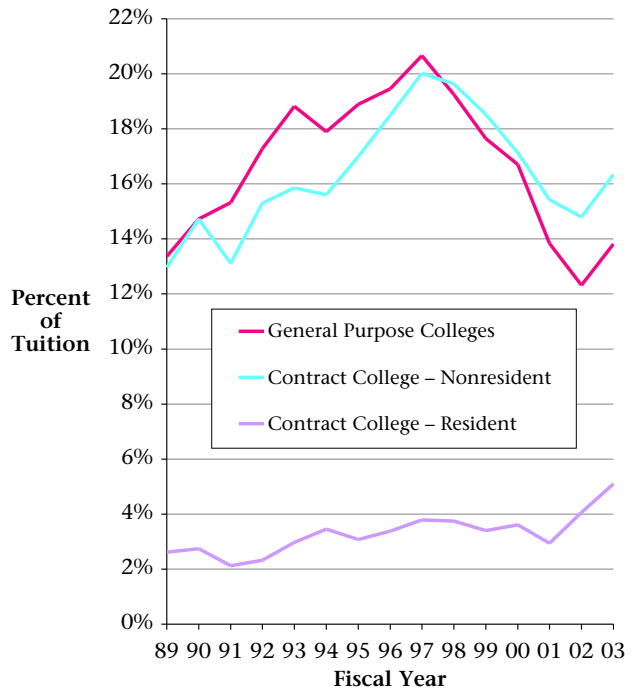
SPECIAL TOPICS – FINANCIAL AID

Undergraduate Financial Aid

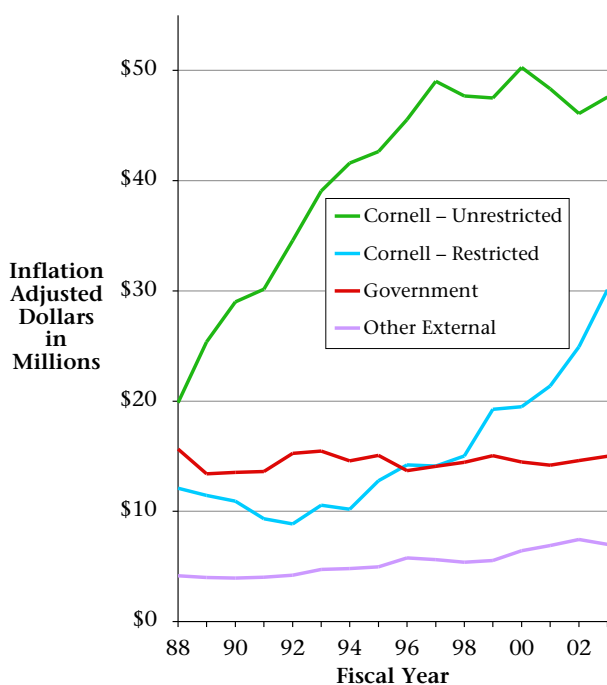
The following changes occurred in undergraduate financial-aid expenditures in 2002-03.

- Grant-aid expenditures averaged \$18,403 per grant-aided student, 0.3 percent less than planned. However, the number who required grant aid was 1.8 percent more than expected, resulting in a total grant-aid expenditure from all sources (federal, state, external, and Cornell) that was 1.5 percent greater than budgeted.
- General purpose grant-aid expenditures totaled \$45.2 million, an increase of 4.7 percent from 2001-02. (See table on page 23.) General purpose grant-aid expenditures have grown at an average annual rate of 9.1 percent since 1987-88. This growth 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

Unrestricted Grant Aid as a Percent of Tuition (excludes Hotel Administration and off-campus students)



Sources of Support for Grant Aid (in inflation-adjusted, 2002-03 dollars in millions)



was less in 2002-03 (\$15 million) than in 1987-88 (\$15.5 million). (See graph at left.)

- The ratio of unrestricted grant aid to gross tuition revenue, sometimes termed a *tuition discount*, is a measure of the operational impact of awarding unrestricted grants. From 1988-89 through 1996-97, that ratio for the general purpose colleges rose from 13.4 percent to 20.7 percent. (See graph above.) There was an almost identical change for the contract college nonresident population (13 percent to 20 percent). Both ratios have fallen below 20 percent since due to the increase in restricted gift and endowment support and increases in tuition rates. The ratio for contract college students who are New York State residents has grown from 2.6 percent to 5.1 percent, with the most recent uptick reflecting New York State's faltering economy. (The figures for New York State resident students in the contract colleges are lower than those for nonresident students in those colleges because of reduced tuition rates charged to resident students and the availability of state-funded tuition assistance, among other factors.)

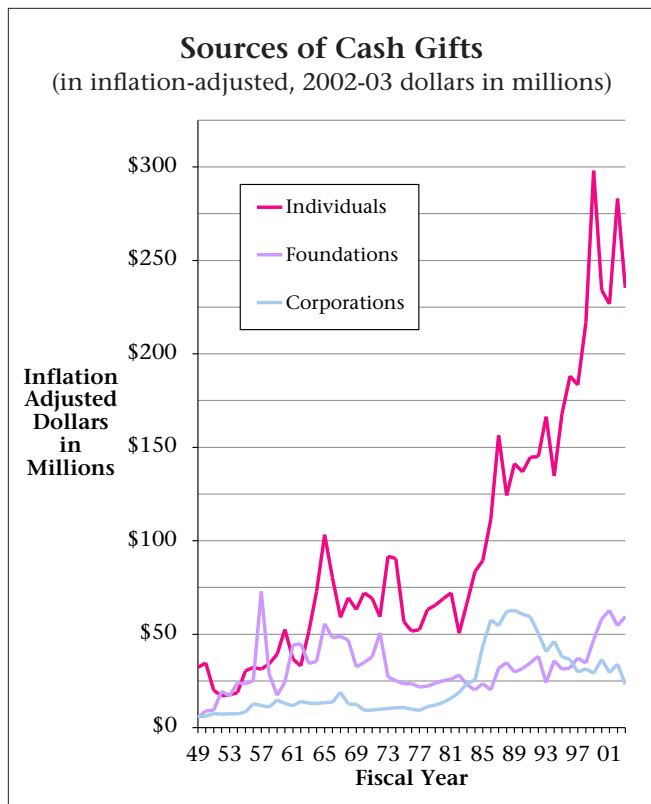
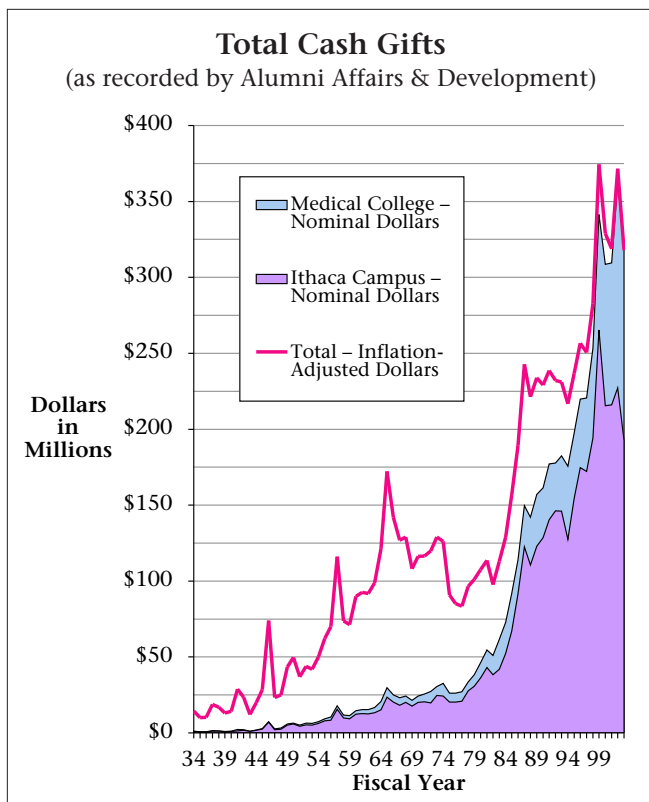
Sources of Funding for Undergraduate Financial Aid						Percent Change from Plan to Actual	Average Annual Growth Rate from 87-88
(dollars in thousands)							
	87-88 Actual	00-01 Actual	01-02 Actual	02-03 Plan	02-03 Actual		
Family Contribution							
1. Parental	\$22,189	\$54,862	\$59,712	\$60,521	\$63,749	5.3%	7.3%
2. Student	7,819	14,660	16,041	16,279	17,773	9.2%	5.6%
3. Subtotal	30,008	69,522	75,753	76,800	81,522	6.1%	6.9%
Federal Government							
4. Grants	5,143	8,392	8,913	8,817	9,421	6.9%	4.1%
5. Loans	11,192	29,501	30,776	32,189	32,059	(0.4%)	7.3%
6. Work/Study	2,769	4,716	4,901	4,950	4,907	(0.9%)	3.9%
7. Subtotal	19,104	42,609	44,590	45,956	46,387	0.9%	6.1%
State Government							
8. Grants	4,903	5,377	5,348	5,354	5,572	4.1%	0.9%
9. Work/Study	692						
10. Subtotal	5,595	5,377	5,348	5,354	5,572	4.1%	(0.0%)
Other External							
11. Grants	2,663	6,704	7,263	7,458	7,001	(6.1%)	6.7%
12. Subtotal	2,663	6,704	7,263	7,458	7,001	(6.1%)	6.7%
Cornell							
13. General Purpose Grants	12,157	44,942	43,151	49,683	45,180	(9.1%)	9.1%
14. Designated Grants	594	1,973	1,867	2,454	2,393	(2.5%)	9.7%
15. Gifts/Endowment Grants	7,770	20,738	24,350	24,437	30,106	23.2%	9.4%
16. Loans	130	1,169	1,423	1,200	1,364	13.7%	17.0%
17. Work/Study	1,846	4,716	4,901	4,950	4,907	(0.9%)	6.7%
18. Subtotal	22,497	73,538	75,692	82,724	83,950	1.5%	9.2%
19. Total	79,867	197,750	208,646	218,292	224,432	2.8%	7.1%
Financial-Aid Population							
(on- and off-campus)							
	Fall 1987 Actual	Fall 2000 Actual	Fall 2001 Actual	Fall 2002 Plan	Fall 2002 Actual	Percent Change from Plan to Actual	Average Annual Growth Rate from Fall 1987
All Undergraduates							
1. Total Enrollment	12,958	13,590	13,801	13,636	13,725	0.7%	0.4%
2. Number with Need	5,173	6,500	6,489	6,545	6,598	0.8%	1.6%
3. <i>Percent of Total Enrollment</i>	39.9%	47.8%	47.0%	48.0%	48.1%		
4. Number with Grant Aid	3,815	5,282	5,257	5,318	5,416	1.8%	2.4%
5. <i>Percent of Total Enrollment</i>	29.4%	38.9%	38.1%	39.0%	39.5%		
Minority Undergraduates							
6. Total Minority	2,436	3,677	3,719	3,709	3,717	0.2%	2.9%
7. <i>Percent of Total Enrollment</i>	18.8%	27.1%	26.9%	27.2%	27.1%		
8. Underrepresented Minority	1,124	1,442	1,467	1,486	1,462	(1.6%)	1.8%
9. <i>Percent of Total Enrollment</i>	8.7%	10.6%	10.6%	10.9%	10.7%		
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.							

SPECIAL TOPICS – GIFTS/CONTRIBUTIONS

Gifts/Contributions

Cornell raised \$317 million in cash gifts in 2002-03 (as reported by Alumni Affairs and Development), a 13 percent decrease from the prior-year amount. (See graph below and table on page 25.) Cornell was second among Ivy League and peer institutions in raising cash gifts from alumni (\$172 million).

- Since 1933-34 the nominal level of cash gifts to Cornell has grown at an annual compounded rate of 8.6 percent. In inflation-adjusted terms, giving has increased at 4.6 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 74 percent of total giving—has grown dramatically.
- 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



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 income from irrevocable outside trusts.

- A total of \$222.6 million in contributions was reported in the university's 2002-03 financial statements. This total differed by \$94.4 million from the Gift Records cash gift total, and included adjustments for pledges, gift annuities, split-interest agreements, and timing differences. (See table on page 25 for reconciliation.)
- Contributions for general operations declined \$120.8 million from the 2001-02 level, while contributions to financial capital and physical capital decreased \$40.6 million and \$53.3 million respectively. Much of this change represented a substantial adjustment in pledge balances and centered in the Medical College (56 percent of the total decrease). Forty percent of the decline occurred in the endowed Ithaca division, and the contract colleges accounted for the remainder.

Reconciliation of Contributions to Cash Gifts

(dollars in thousands)

	Endowed <u>Ithaca</u>	Contract <u>Colleges</u>	Medical <u>College</u>	02-03 <u>Total</u>	01-02 <u>Total</u>	Change from <u>01-02</u>
General Operations						
1. Unrestricted	\$35,501	\$9,384	\$50,665	\$95,550	\$123,414	(23%)
2. Temporarily Restricted	<u>10,611</u>	<u>8,489</u>	<u>16,569</u>	35,669	<u>128,608</u>	(72%)
3. Total General Operations	46,112	17,873	67,234	131,219	252,022	(48%)
Financial Capital						
4. True Endowment	20,522	4,359	12,761	37,642	80,220	(53%)
5. Funds Functioning as Endowment	23,128	3,840	10,271	37,239	28,559	30%
6. Life Income Funds	2,382	1,371	68	3,821	4,639	(18%)
7. Trusts Held by Others			276	276	6,752	(96%)
8. Loan Funds	<u>953</u>		<u>206</u>	1,159	<u>591</u>	96%
9. Total Financial Capital	46,985	9,570	23,582	80,137	120,761	(34%)
Physical Capital						
10. Cash Gifts	3,843	682	4,354	8,879	54,507	(84%)
11. Gifts in Kind	<u>2,248</u>	<u>123</u>		2,371	<u>10,083</u>	(77%)
12. Total Physical Capital	6,091	805	4,354	11,250	64,590	(83%)
13. Financial Statement Total	99,188	28,248	95,170	222,606	437,373	(49%)
Adjustments						
14. Gifts to Outside Trusts	920	(16)	(276)	628	(1,167)	(154%)
15. Gift Annuities	2,912	650	45	3,607	1,482	143%
16. Split-Interest Agreements	1,817	651	63	2,531	5,845	(57%)
17. Insurance Premiums Not Booked	1			1	(24)	(104%)
18. Pledges (net present value)	53,048	3,376	29,725	86,149	(83,412)	(203%)
19. Timing Differences	1,245	275	2	1,522	(605)	(352%)
20. Other	<u>(1)</u>			(1)	<u>3,541</u>	(100%)
21. Total Adjustments	59,942	4,936	29,559	94,437	(74,340)	(227%)
22. Gift Records Total	159,130	33,184	124,729	317,043	363,033	(13%)

- Notes:
- This table reconciles contributions as displayed in the financial statements (line 13) to cash gifts as reported from the Gifts Records 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 Gift Records 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 Gift Records 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 Gifts Records 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 Gifts Records System). Others are partial (e.g., the recognition in the financial statements of the interest that beneficiaries may have in split-interest agreements).

NOTES

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