

Cornell University
2000-2001 Financial Report



2000-2001 Financial Report

CONTENTS

Highlights	2
Message from the Vice President for Administration and Chief Financial Officer	4
Financial Review by the Acting Vice President for Financial Affairs and University Controller	7
Independent Auditor's Report	12
Notes to the Financial Statements	17
Administration	30
Board of Trustees and Trustee Fellows	31
Emeritus Trustees and Weill Medical College and Weill Graduate School of Medical Sciences Board of Overseers	32

M004

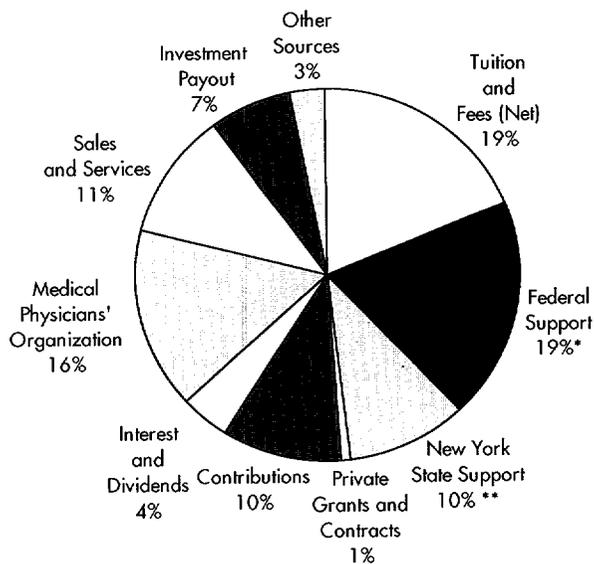
Rec'd
1/31/02
D&D

CORNELL UNIVERSITY HIGHLIGHTS

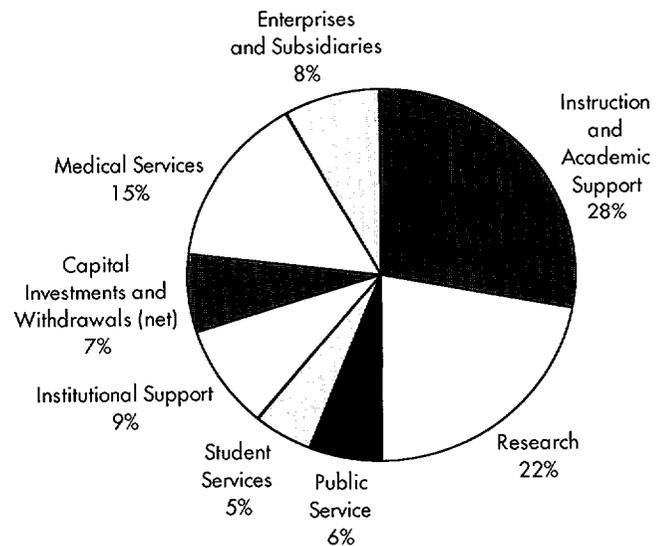
	1990-91	1995-96	2000-01
Fall enrollment (excluding <i>in absentia</i>)			
Undergraduate	12,801	13,372	13,590
Graduate	4,430	4,357	4,153
Professional	<u>1,761</u>	<u>1,803</u>	<u>1,877</u>
Total fall enrollment	<u>18,992</u>	<u>19,532</u>	<u>19,620</u>
Degrees granted			
Baccalaureate degrees	3,408	3,340	3,585
Masters degrees	1,240	1,510	1,485
Ph.D. degrees	532	559	459
Other doctoral degrees (J.D., M.D., D.V.M.)	<u>376</u>	<u>347</u>	<u>355</u>
Total degrees granted	<u>5,556</u>	<u>5,756</u>	<u>5,884</u>
Tuition rates			
Endowed	\$15,120	\$20,000	\$24,760
Statutory			
Resident	\$ 5,950	\$ 8,490	\$10,830
Nonresident	\$10,890	\$16,460	\$20,900
Medical	\$19,200	\$22,365	\$27,650
Business	\$16,100	\$21,480	\$27,600
Law	\$15,900	\$21,135	\$27,300
Veterinary medicine	\$ 9,500	\$13,080	\$15,400
Volumes in library (in thousands)	5,334	5,952	6,965
Academic workforce			
Full-time employees			
Faculty	2,271	2,194	2,813
Nonfaculty	836	915	995
Part-time employees			
Faculty	135	143	144
Nonfaculty	<u>187</u>	<u>182</u>	<u>182</u>
Total academic workforce	<u>3,429</u>	<u>3,434</u>	<u>4,134</u>
Nonacademic workforce			
Full-time employees	7,955	7,454	7,992
Part-time employees	<u>513</u>	<u>593</u>	<u>740</u>
Total nonacademic workforce	<u>8,468</u>	<u>8,047</u>	<u>8,732</u>

	1990-91	1995-96	2000-01
Selected financial capital—net assets			
Book value of total university endowment (in millions)	\$ 880.6	\$1,566.6	\$2,857.3
Market value of total university endowment (in millions)	\$ 953.6	\$1,853.1	\$3,210.4
Unit value of Long-Term Investment Pool	\$ 23.14	\$ 36.71	\$ 51.85
Gifts received, excluding pledges (in millions)	\$ 177.1	\$ 219.7	\$ 309.5
New York State appropriations through S.U.N.Y. (in millions)	\$ 121.9	\$ 124.5	\$ 136.5
Medical Physicians' Organization fees (in millions)	\$ 146.2	\$ 193.8	\$ 260.0
Sponsored research volume (in millions)			
Direct expenditures	\$ 161.4	\$ 198.2	\$ 232.6
Indirect-cost recovery	\$ 56.5	\$ 66.3	\$ 82.7
Selected physical capital items			
Additions to land, buildings, and equipment (in millions)	\$ 79.4	\$ 241.0	\$ 300.7
Cost of land, buildings, and equipment (in millions)	\$1,446.2	\$1,936.9	\$2,580.8
Ratio of physical capital net investment to debt	145%	236%	281%
Outstanding bonds, mortgages, and notes payable (in millions)	\$ 482.4	\$ 454.9	\$ 532.6

GENERAL OPERATIONS REVENUES 2000-01



GENERAL OPERATIONS EXPENSES 2000-01



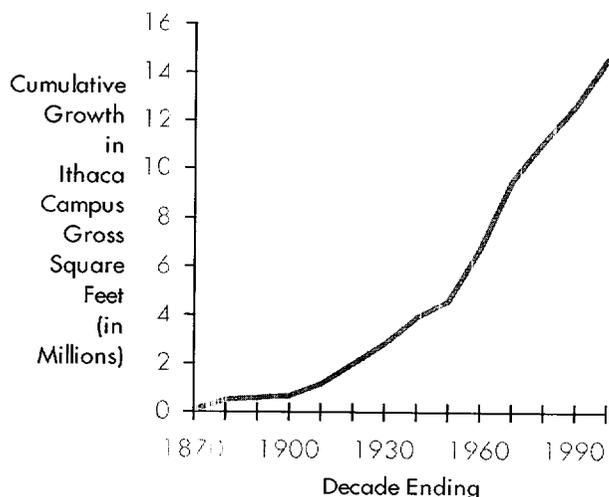
* Appropriations 1%
Grants 18%

** Appropriations 9%
Grants 1%

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND CHIEF FINANCIAL OFFICER

In June 2001, the report of the evaluation team sent to Cornell by the Middle States Association/Commission on Higher Education described Cornell as “truly a special place, with distinctive traditions and historic roots, a vigorous and productive record of current accomplishment and commitment, and a future that should be very bright.” The evaluation team also noted that “Cornell has an exceptionally beautiful Ithaca campus, in both its landscape and its buildings. With few exceptions, the buildings are well-planned for their purposes, handsomely outfitted, and well maintained.” Certainly we would not quarrel with those opinions. Cornell’s physical facilities provide a unique window on the character of the institution itself, and project a strong and compelling image of Cornell to all prospective members of our university community. As stewards of Cornell, it is therefore our responsibility to preserve the caliber of the university’s physical assets and, when expansion is necessary, to do so thoughtfully, keeping clearly in mind the standards we have set for ourselves, along with any attendant fiscal and campus planning implications.

The graph below shows Cornell’s dramatic growth in physical space on the Ithaca campus since its founding in 1865. Facility space was added slowly through 1900, with a total of about 700,000 gross square feet (GSF) by the beginning of the twentieth century. Thereafter, facility space grew more rapidly, expanding at an annual compounded rate of approximately 4 percent through 1970. Much of this early growth was related to the establishment of the contract colleges and the construction of student residences. Cornell’s founders



had discouraged the latter during the nineteenth century. Nevertheless, student residence on campus was seen as a necessary component to support enrollment expansion after World War I. During the post-World War II era, Cornell experienced a

As stewards of Cornell, it is therefore our responsibility to preserve the caliber of the university’s physical assets and, when expansion is necessary, to do so thoughtfully....”

major expansion in science and engineering facilities and a need for yet more residential space because of a second boom in enrollment.

Over the past thirty years, the growth rate of new physical space in Ithaca has slowed to slightly less than 1.5 percent per year. While seemingly small, that rate nevertheless yields about 200,000 new GSF annually. This is roughly the equivalent of one new Rhodes Hall each year or just slightly less than one new Baker Laboratory or two new Goldwin Smith Halls per year. By contrast, it took seven years to add that much space in the early 1900s.

In fiscal year 2000-01, the university spent \$300.7 million on buildings, renovations, and capital expenditures. As of June 30, 2001, the university owned, controlled, or had use of more than 21,000 acres of land and 16.2 million square feet of space, including the 1.4 million square feet of space at the Joan and Sanford I. Weill Medical College in New York City.

A look at the total valuation of Cornell’s property in this report can be seriously misleading. Financial accounting standards require the university to report the value of physical capital (land, buildings, furniture, equipment, artwork, and books) on a “book basis” (cost at date of acquisition or fair market value at date of donation, net of accumulated depreciation). Hence, for accounting purposes, the value of Cornell’s buildings on June 30, 2001, stood at \$922 million (\$1.368 billion less \$446 million of depreciation). This is a gross understatement of the actual replacement value. For

example, Sage Chapel's value on the books, before depreciation, is \$178,772, including \$103,375 for roof replacement in 2001; Goldwin Smith Hall, with a book value of \$3.5 million, includes \$2.9 million of renovations—its original cost basis is \$368,989. Clearly, "book basis" is unrevealing.

The cost of some recently constructed facilities in Ithaca demonstrates that Cornell can expect to pay from \$200 to \$350 per GSF for academic or research space on the Ithaca campus, whether for athletic, high-tech research, mixed-use office and classroom, or library space. Costs for construction in New York City, of course, can be substantially higher. Using a very conservative average cost of new construction of \$200 per GSF, the replacement value of Cornell's physical space can be estimated at approximately \$3.2 billion, or more than double its value calculated on a cost basis (prior to any depreciation consideration).

As just noted, physical space is costly to construct. At major research universities such as Cornell, per-square-foot costs for research and teaching facilities substantially exceed those for more common commercial or developer-driven projects. This is primarily because university buildings are one of a kind and multi-storied, with large physical spans and complicated demands for safety, heating, ventilating, and air conditioning systems. Adding to the cost is Cornell's usual intention that the facility remain functional and appropriate for a century or so; that is, it must be flexible and rugged. Finally, there are issues of historical preservation that often must be accommodated, as must adjustments required by local governmental bodies that give final community approval to any project. Rarely does either of these issues prove to be inexpensive to accommodate.

Additionally, physical space is expensive to maintain and operate. Applying a common rule of thumb that annual operation and maintenance expenditures average between 3 and 5 percent of a facility's replacement value, Cornell should expect to spend between \$96 million and \$160 million per year for building operations and maintenance. In fiscal year 2000-01, the university spent \$130.5 million for these purposes, about at the mid-point of the range, which was sufficient to operate the facilities appropriately and keep them maintained satisfactorily.

During the flush of enthusiasm and excitement when a new facility is being contemplated and planned, the long-term financial implications of continuing operating costs can sometimes recede

into the background. However, to counter that tendency, before any commitment is made to proceed with a new facility, a specific plan is developed to cover the operating costs. This plan can incorporate a combination of increased revenues from research overhead recovery or additional revenues from increased activity (e.g., more student rooms), diversion of college or university funds for the purpose, or proceeds from a maintenance endowment. Regarding the last, with current endowment payout in the range of 4 to 5 percent of market

"During the flush of enthusiasm and excitement when a new facility is being contemplated and planned, the long-term financial implications of continuing operating costs can sometimes recede into the background."

value, the size of a maintenance endowment must equal roughly the cost of the facility if the endowment is to cover all operating costs.

The issues above illustrate why long-term capital planning is required to integrate unpredictable and fluctuating capital needs with fundraising, budget, and, occasionally, debt planning. This planning must take into consideration the various options available for capital funding or financing, such as a focused fund-raising or capital campaign, state appropriations, internal direct funding, internal borrowing from unrestricted reserves or funds functioning as endowment, bank debt, tax-exempt debt in public markets, or private sector development. Most of these options have been used at one time or another in the recent past and are still viable today.

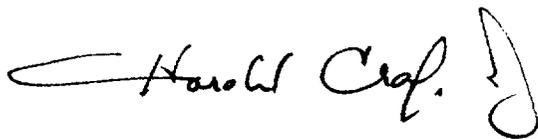
The university administration anticipates substantial capital spending over the next five years to support the university's highest priority strategic initiatives. These initiatives are intended to enhance the undergraduate experience, as well as to support the research areas of genomics, advanced materials, and computing and information science. The first of these, enhancing the undergraduate experience, has, as one of its objectives, the

linking of a student's intellectual growth with life outside the classroom; that is, in the living units. As one step to this end, all freshmen are now located together on North Campus where they will enjoy a common, albeit richer, freshman experience. This co-location has been made possible by the recently completed construction on North Campus of major new residence units and a new community commons that contains dining, community, and recreational space. This initiative has dramatically changed the face and character of North Campus.

Even more dramatic will be the construction on West Campus of four or five new living/learning houses. Each of these houses will be a residential community unto itself, with residences, dining, and support space all included. Each of the houses will have substantial faculty presence and leadership. The capital project to support this objective is now in early design and planning; completion of the transformation of West Campus is expected to take five to eight years at a cost of \$170 million.

The preceding are just two examples of projects that support university priorities. Two remaining major building projects are the construction, at a cost in excess of \$60 million, of Duffield Hall, on the Engineering Quadrangle. This project is in support of research in advanced materials and nanotechnology. Additionally, we anticipate construction of a Life Sciences Technology building, at a cost in excess of \$100 million, on a site yet to be determined. This building is intended to support substantial further development of the university's current great strength in biological research.

In sum, these focused areas of emphasis, and the capital projects that go along with them, will ensure that Cornell continues to lead in education and research, and that this magnificent institution will remain a special place for generations to come.

A handwritten signature in black ink, reading "Harold D. Craft Jr." with a stylized flourish at the end.

Harold D. Craft Jr.
Vice President for Administration
and Chief Financial Officer

FINANCIAL REVIEW BY THE ACTING VICE PRESIDENT FOR FINANCIAL AFFAIRS AND UNIVERSITY CONTROLLER

EFFICIENCY GAINS IN FINANCIAL PROCESSES

Because the Division of Financial Affairs is now processing a much greater number of daily transactions, it was necessary for us to develop innovative system enhancements to accommodate this escalating workload. Therefore, our concentration this year was on significant workflow improvements, including a Journal Entry Management System (JEMS), a "risk rating" process for journal entries, a new accounting data warehouse model, and a new web-based front end for the purchasing legacy system.

With almost 1.5 million lines of data on journal entries processed each fiscal year, one of the priorities for improving workflow was the JEMS project. This web-based automated process for on-line journal entry creation and on-line approval was first implemented by a small group of users in January of 2001. Since then, the number of users has expanded. This project eliminates redundant data entry; identifies invalid accounts, object codes, and out-of-balance journal entries at the point of preparation; provides easier tracking of a journal's status; and retains archival information on line, which eliminates the need to retrieve a paper copy.

In addition to automating the journal process, we implemented a risk-rating process for journal entry transactions. The process utilizes a computer program that screens transactions and assigns risk based on pre-determined factors. This has permitted us to streamline the review of approximately 4,000 journal entries per month, allowing us to concentrate on those that pose the highest risk to the institution.

We also improved the Accounting Data Warehouse (ADW) by converting to a new data structure and new query tool. Fiscal year data going back to 1995 is now accessible in a single query. Also, the selected query program will be used for all current and future data warehouses, serving to leverage the knowledge that was gleaned from the ADW training to all other data warehouse users.

For many years, the Office for Purchasing Services has worked with a legacy system (the Automated Procurement and Payment System, or APPS) that was not user friendly. With a new purchasing system several years away, we decided to increase customer productivity and satisfaction by providing a user-friendly, intuitive web interface; while, at the same time, supplying a link to preferred supplier sites. Additionally, using a method that employs "screen mapping" technology to inter-

face with APPS, the Web Requisition project (or WebReq) also offers a simple way to enter requisitions into APPS, one that is especially designed for the casual user.

GOVERNMENT REGULATIONS

The Economic Growth and Tax Relief Reconciliation Act of 2001 is directed primarily toward individual taxpayers rather than businesses or exempt organizations. It expands education incentives for individuals that are already in place, such as the Educational Assistance Programs, Qualified Tuition Programs, and Education IRAs. It also provides new incentives such as the above-the-line deduction for individuals for qualified tuition and related expenses. These provisions strongly support higher education by providing tax incentives to individuals who are pursuing undergraduate and graduate education.

During the year, the Office of Management and Budget (OMB) issued a revision of and a clarification letter to one of its major circulars that govern federal contracting, Circular A-21, "Cost Principles for Educational Institutions." The circular became effective on September 7, 2000. The revision added a standard format for submitting facilities and administrative (F&A) rate proposals. This template will assist federal cognizant agency review of rates by standardizing the data received from universities. In addition, the new format will allow the government to collect information regarding costs and rates from educational institutions. Cornell is required to submit a rate proposal in the new standard format at the end of fiscal year 2001-02 for negotiation of rates for fiscal year 2003-04 and beyond.

In January 2001, OMB issued a clarification of OMB A-21 on the treatment of voluntary uncommitted cost sharing and tuition remission costs. Voluntary uncommitted cost sharing is defined by OMB as university faculty effort that is over and above that which is committed and budgeted for in a sponsored agreement. The clarification states that voluntary uncommitted cost sharing should be treated differently from committed effort and should not be included in the organized research base for computing F&A rates. The letter also clarifies the charging of tuition remission costs of graduate students charged to federal programs in accordance with OMB Circular A-21. A-21 states that there must be a "bona fide employer-em-

ployee" relationship; and, the clarification letter states that this does not mean that tuition remission costs are allowable only if a graduate student is treated as an employee for the purposes of the Internal Revenue Code. Rather, it recognizes the reality that research activities are an essential component of an individual's educational activities. The impact of the clarification letter is minimal; our practices are now supported by the clarifications.

In December 2000, The Office of Research Integrity (ORI) of the U.S. Department of Health and Human Services issued a policy, "Instruction in the Responsible Conduct of Research" (RCR). This policy requires that all research staff members who have direct and substantive involvement in proposing, performing, reviewing, or reporting research that is supported by Public Health Service (PHS) funds be provided formal instruction in good research practices. In addition, instruction assurance was required on all PHS grant applications, as well as in the submission of the Annual Report on Possible Research Misconduct. In February 2001, the policy was suspended, pending additional review of both the substance of the policy and the process for adoption. The policy is expected to be implemented in some form in the near future. The development of the training programs as well as the monitoring and training system will be a major implementation effort for Cornell. The Cornell University Office of Research is currently working to address this issue.

Another governmental activity that took place this past year was the January 2001 publication of the Implementation of the National Science and Technology Council (NSTC) Presidential Review Directive-4: "Renewing the Federal Government-University Research Partnership for the 21st Century." The NSTC, established by President Clinton in 1993, is the principal means by which the President coordinates science, space and technology policies across the Federal Government. Over the past year, the academic community provided comments regarding the original 1999 report. Additionally, a multi-agency task force was created to consider public comments and propose specific action plans. This effort resulted in the following guiding principles: 1) research is an investment in the future; 2) the integration of research and education is vital; 3) excellence is promoted when investments are guided by merit review; and 4) research must be conducted with integrity. The OMB A-21 clarification letter, to which I earlier referred, was a direct result of the report. Finally, the report supports interagency review of general terms and conditions for government-wide adapta-

tion on all research awards, along with the development of a common face for electronic research administration.

NEW IN THIS YEAR'S FINANCIAL REPORT

Two new accounting pronouncements were adopted this year, Statement of Financial Accounting Standards (SFAS) No. 133 *Accounting for Derivative Instruments and Hedging Activities*, effective July 1, 2000, and No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, effective June 30, 2001. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For Cornell, derivatives held as part of the investment portfolio have been recorded as assets and shown at their fair value for a number of years. However, adoption of the Standard did require a change in the way the 2000B debt swap is treated. In fiscal year 1999-00, we entered into an agreement to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. The counterparty is paying the university a variable interest rate equal to the Bond Market Association Municipal Swap Index (BMA) index, on a notional amount of \$87,200,000, and the university pays the counterparty a fixed interest rate of 4.62 percent. This agreement meets the definition of a derivative, under SFAS 133, and must be adjusted to its fair value. At June 30, 2001, this agreement was worth \$2.7 million more to the counterparty, based on interest rates in effect on that day. Therefore, the university recorded additional interest expense and a liability of \$2,700,000, reflecting the obligation to pay the counterparty the additional amount in the

LONG-TERM INVESTMENT POOL

Source and applications (in millions)

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

Unit value at year end (in dollars) *

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

event the agreement is cancelled. This amount will be adjusted each year as interest rates change.

SFAS 140 requires the university to recognize an asset and offsetting liability in the statement of financial position for the fair value of the collateral received as part of its securities lending activities. This information was previously disclosed in the notes to the financial statements; however, it was not recorded in the statement of financial position. At June 30, 2001, we held \$79.6 million in collateral, comprised of cash and cash equivalents. Therefore, the financial capital *cash and cash equivalents* amount at June 30, 2001 includes the additional \$79.6 million, and the offsetting liability is recorded in *deposits and deferred revenue*. Neither of these pronouncements required a restatement of the fiscal year 1999-00 financial report.

THE YEAR IN REVIEW

What a difference a year makes. In last year's commentary, we reported one of the largest surpluses ever, at \$799 million, increasing the university's net worth by 17.9 percent. The increase was due to two factors, strong investment performance and a substantial number of new pledges. For fiscal year 2000-01, the news isn't quite as rosy, with a loss of net worth of \$159 million or 3 percent. While the "good times" of the late 1990s have ended, the university's finances are still strong.

Cornell ended the fiscal year at June 30, 2001 with total assets of \$6.26 billion, total liabilities of \$1.15 billion, and net assets of \$5.11 billion. Total assets declined by \$75 million, or 1.2 percent, from the prior year. Total liabilities rose by \$84 million, or 7.9 percent, from fiscal year 1999-00, and net assets fell by \$159 million, or 3 percent.

The most significant reduction in the

university's assets was in investments, which declined by \$259 million over the prior year, primarily because of worsening market conditions. The university's Long Term Investment Pool (LTIP) contains most of the endowment assets and other funds that are invested to achieve long-term growth. The LTIP is diversified across many asset classes, with the majority in various types of equities in both U.S. and overseas markets. For the year ended June 30, 2001, the overall U.S. and international markets, and most segments of those markets, suffered significant losses. Although there were gains in the fixed income portion of the LTIP and in specialized asset classes such as real estate, these gains were not sufficient to offset the equity losses, and the total LTIP was down 6.7 percent for the year. However, longer-term investment results are still strongly positive, with an 11.5 percent annualized return over the last 5 years.

The market value per unit at year-end was \$51.85, down 10.8 percent from the prior-year unit value of \$58.16. The table on this page shows the value of the LTIP over the last ten years. The growth over that period, from \$23.14 to \$51.85 per share, represents an annual compound rate of 8.4 percent. This return is net of the distributions from the pool, which have averaged 3.7 percent per year over the same ten-year period. Cornell's policy on distributions from the LTIP is based on total return rather than annual cash yield. Note 2 of the financial statements (page 21) explains this policy. In fiscal years 2000-01 and 1999-00, the payout rates were \$2.30 and \$1.94 per share, respectively. These rates resulted in distributions of \$131.8 million and \$106.6 million, for fiscal years 2000-01 and 1999-00, respectively. The dividend for 2000-01 was 4.4 percent of the unit share value at year-end and 4.6 percent of the average unit share value for the 12 quarters ending on June 30, 2000. The sources of

1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
\$861.5	\$ 878.5	\$1,027.5	\$1,178.5	\$1,213.2	\$1,424.2	\$1,748.4	\$2,043.4	\$2,427.6	\$2,760.3	\$3,288.0
46.7	61.0	56.1	50.6	59.2	77.4	72.8	98.9	147.8	146.4	135.4
(12.4)	(2.5)	(28.2)	(2.6)	(8.7)	(23.2)	(25.9)	(32.1)	(40.5)	(55.5)	(84.6)
(17.3)	90.5	123.1	(13.3)	160.5	270.0	248.1	317.4	225.4	436.8	(294.9)
<u>\$878.5</u>	<u>\$1,027.5</u>	<u>\$1,178.5</u>	<u>\$1,213.2</u>	<u>\$1,424.2</u>	<u>\$1,748.4</u>	<u>\$2,043.4</u>	<u>\$2,427.6</u>	<u>\$2,760.3</u>	<u>\$3,288.0</u>	<u>\$3,043.9</u>
<u>\$ 23.14</u>	<u>\$ 25.36</u>	<u>\$ 28.01</u>	<u>\$ 27.70</u>	<u>\$ 31.28</u>	<u>\$ 36.71</u>	<u>\$ 41.51</u>	<u>\$ 47.65</u>	<u>\$ 51.16</u>	<u>\$ 58.16</u>	<u>\$ 51.85</u>

the payout for fiscal year 2000–01 were \$49.3 million in net investment income and \$82.5 million in capital appreciation, of which \$24.1 million had been earned in previous years. Equivalent amounts for fiscal year 1999–00 were \$47.5 million from investment income and \$59.1 million from capital appreciation. The payout rate for fiscal year 2001–02 is set at \$2.70 per share.

Table 2 on page 19 of the Notes to the Financial Statements shows the value of Cornell's endowment based on Generally Accepted Accounting Principles. As indicated on the table's subtotal line 6, "total university endowment" is \$3.21 billion and corresponds to the numbers in the net-assets section of the Statement of Financial Position (page 13). Purists would probably remove the \$59 million of contributions receivable to obtain the value of the university endowment net assets that are actively managed. In fact, the figure reported to the National Association of College and University Business Officers for its longitudinal survey of endowments from all colleges and universities will be \$3.15 billion, which is net of the \$59 million of contributions receivable. Total endowment assets managed by the university are \$3.46 billion (cash and investments), of which \$318 million are held for other entities.

Contributions receivable also went down \$23 million or 5.7 percent, from \$408 million at June 30, 2000 to \$385 million at June 30, 2001. These numbers represent the present value of the unconditional written or oral promises to donate to the university in the future. One of the unintended consequences of SFAS 116, *Accounting for Contributions Received and Contributions Made*, adopted in 1996, is the variability in revenue and receivables caused by recording large one-time "out of the ordinary" pledges when they are made. The present value of these pledges can be sizable and cause significant swings in revenue and receivables from year to year. The university has long been a recipient of large commitments to give, generally paid over a period of a few years. Prior to the adoption of SFAS 116, these contributions were recorded when received in cash or other consideration, smoothing the effect over a number of years. Now that they are recorded in a lump sum when the promise is made, significant variability is a result.

During fiscal year 2000-01, new pledges and contributions received were significant; however, they did not reach the levels of fiscal year 1999-00, when a number of sizable new pledges were recorded. Specifically, the present value of new pledges in fiscal year 2000-01 was \$80 million,

compared to the present value of new pledges in the prior year of \$254 million. Table 5 in the notes (page 23) shows the anticipated payment schedule of the receivable at June 30, 2001, and June 30, 2000. Payments received on existing pledges during fiscal year 2000-01 amounted to \$110 million.

Student loans receivable remained stable. Cornell has an excellent loan collection experience. For the fiscal year ending June 30, 2001, our Perkins Cohort loan default rate was 2.7 percent compared with the national rate as of June 30, 1998, of 8.8 percent (the most current rate available). Similarly, our Cohort default rate on the Federal Direct Lending Program was 1.0 percent for fiscal year 1998-99 versus the national rate of 7.9 percent for fiscal year 1997-98.

Land, buildings, and equipment increased by \$64 million from \$1.388 billion to \$1.452 billion, an increase of 4.6 percent. Projects completed during the year included the Lake Source Cooling project and the renovations to Lincoln Hall. Construction in progress at June 30, 2001 included the North Campus Residential Initiative and Duffield Hall.

The largest component of the university's liabilities is bonds, mortgages, and notes payable, which totaled \$533 million at June 30, 2001, rising by \$15 million, or 2.8 percent, from the June 30, 2000 balance. The increase is a result of the issuance of commercial paper of \$43 million. Payments on debt were \$29 million, and accrued interest was \$1 million. The university was last rated in April 2000, and received upgrades for both \$50 million in new bonds and approximately \$360 million in existing bonds from both Standard & Poor's and Moody's Investors Service. The S&P rating went from AA to AA+, and the Moody's Investors Service rating, from Aa2 to Aa1.

The largest increase in liabilities was in deposits and deferred revenue, growing \$72 million over the prior year. This is a result of the adoption of SFAS 140, mentioned above, which requires the recording of the liability for collateral held as part of the securities lending activities.

Information detailing the decline in net assets of \$159 million for fiscal year 2000–01, and increase of \$799 million for fiscal year 1999–00, is shown in the Statement of Activities and is also summarized in Table 1 of the Notes to the Financial Statements (page 18).

The performance result for unrestricted general operations, which aggregates the activities of the primary and supporting missions of the university, shows a rise in net assets of \$22.4 million. This increase represents 1.5 percent of unrestricted

general operations sources of \$1.519 billion (after transfers out of \$81 million for capital investment in physical and financial capital). There was an \$11 million jump in restricted net assets used for general operations, essentially spending most of the restricted revenue received during the year. The pie charts on page 3 show the composition of general operations revenues and expenses.

Cornell continued to enhance plant and equipment during fiscal year 2000-01. The year's activity resulted in gross additions of \$143 million and deductions of \$122 million for depreciation and disposals. The net increase for physical capital is therefore \$21 million.

Net assets in financial capital fell \$214 million, the result of negative investment returns, primarily in the LTIP. Unrealized losses recorded in financial capital were \$319 million. However, these are paper losses, recorded to adjust the investments to market value, and as such are not a major cause for concern.

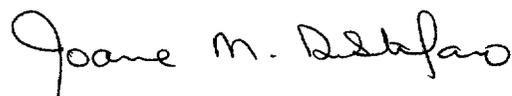
The university experienced a reduction in total revenue of \$895 million, or 38 percent, from the prior year—from \$2.354 billion in fiscal year 1999-00 to \$1.459 billion for fiscal year 2000-01. The primary cause was the decline in investment returns, from a positive \$561 million in fiscal year 1999-00 (\$186 million in unrealized gains), to a negative \$138 million in fiscal year 2000-01 (with \$321 million in unrealized losses), a loss of \$699 million. The other significant decline was in contributions, falling \$233 million, from \$506 million to \$273 million, again a result of record-breaking contributions receivable recorded in the prior year. Revenue gains were posted in gross tuition and fees (\$21 million, 5.2 percent), primarily due to rate increases that ranged from 3.6 percent to 5.8 percent, and federal grants and contracts, (\$11 million, 4 percent) primarily for projects at the Joan and Sanford I. Weill Medical College.

There was a very slight rise in expenses of \$64 million or 4.1 percent over the prior year, to \$1.618 billion from \$1.554 billion. The largest dollar increase was in salaries and wages, of \$60.4 million or 7.9 percent, largely the result of the university's continuing plan to improve compensation. There were no significant percentage gains. Reductions were posted in both depreciation and "other expenses" of \$12.8 million and \$6.4 million, respectively. During fiscal year 1999-00 there was a "bump" in depreciation due to the change in the useful life of computers from 5 years to 3 years. The decrease in "other deductions" is also the result of higher than normal activity in the previous year, when the Joan and Sanford I. Weill Medical College

changed its capitalization threshold from \$500 to \$2,000, and assets below that amount were written off as expenses in this category.

Turning to the statement of cash flows, the university's cash and cash equivalents rose \$120.6 million during the year, due to the changes required by SFAS 140 and the larger than normal amount of working capital held in cash and cash equivalents on June 30, 2001. Any excess working capital at June 30 would normally have been moved to equities or fixed income; however, we decided to maintain a cash position, due to then existing market conditions. Net cash provided by operating activities was \$107 million and net cash provided by financing activities was \$106 million. Ninety-two million dollars was used for investing activities to achieve our goal of being as fully invested as possible. These figures indicate a pattern somewhat different from the prior year, in which \$14 million was used for operating activities, \$347 million was added from financing activities, and \$353 million was used for investing activities. The difference in the results from operating activities is due to the number of pledges recorded in fiscal year 1999-00 that are included in the "increase in net assets" but have not been received in cash. The decrease in "net cash provided by financing activities" reflects the proceeds of the bonds issued during fiscal year 1999-00, a level of activity that was not repeated this year.

In summary, the results for fiscal year 2000-01 reflect a return to more normal levels from the record-breaking results of the previous year. And although the university experienced a net loss of 6.7 percent on its major investment pool, net assets continue to exceed \$5 billion. Finally, activities from operations and physical capital continue to break even, which tells us that even in a down year, we can sustain the long-term programmatic and infrastructure objectives of this exemplary university.



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

Independent Auditor's Report

To the Board of Trustees
Cornell University

We have audited the accompanying statement of financial position of Cornell University as of June 30, 2001, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2000 financial statements and, in our report dated September 8, 2000, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cornell University as of June 30, 2001, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2001, the University adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The adoption of SFAS No. 140, as disclosed in note 2D to the financial statements, resulted in an increase of \$79,648,645 in cash and cash equivalents and deferred revenue and deposits recorded in the statement of financial position at June 30, 2001. Prior period financial statements have not been restated for the adoption of this new accounting pronouncement.

KPMG LLP

September 5, 2001
Rochester, New York

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2001 AND 2000 (IN THOUSANDS)

	General Operations	Physical Capital	Financial Capital	2001 Total	2000 Total
Assets					
1 Cash and cash equivalents (note 2)	\$ 59,403	\$ 9,533	\$ 86,359	\$ 155,295	\$ 34,688
2 Investments (note 2)	374,611	139,379	3,376,120	3,890,110	4,149,244
3 Accounts receivable, net (note 3)					
4 Government	35,387			35,387	27,430
5 Patients	64,485			64,485	62,042
6 Contributions	184,712	141,110	58,986	384,808	408,364
7 Other	74,302	4,547		78,849	76,993
8 Inventories and deferred charges	35,994	6,358		42,352	40,775
9 Student loans receivable (note 3C)	56,917		18,494	75,411	76,144
10 Land, buildings, and equipment, net of accumulated depreciation (note 5)		1,452,351		1,452,351	1,387,944
11 Funds held in trust by others (note 1D)			82,876	82,876	73,764
12 Advances for capital investment	25,046	(25,046)			
13 Total assets	<u>\$ 910,857</u>	<u>\$1,728,232</u>	<u>\$3,622,835</u>	<u>\$6,261,924</u>	<u>\$6,337,388</u>
Liabilities					
14 Accounts payable and accrued expenses	\$ 148,296	\$ 2,700		\$ 150,996	\$ 125,785
15 Deposits and deferred revenues	31,165		\$ 79,649	110,814	38,807
16 Deferred benefits (note 7)	76,304		43,773	120,077	129,177
17 Funds held in trust for others (note 1E)			103,916	103,916	109,609
18 Obligations under living trust agreements (note 1C)			90,553	90,553	105,251
19 Bonds, mortgages, & notes payable (note 6)	24,994	507,607		532,601	518,023
20 Refundable government grants	42,474			42,474	40,906
21 Total liabilities	<u>323,233</u>	<u>510,307</u>	<u>317,891</u>	<u>1,151,431</u>	<u>1,067,558</u>
Net Assets (note 1B)					
22 Unrestricted					
23 Available for operations	267,005			267,005	244,234
24 Designated for student loans	5,025			5,025	5,438
25 Designated for plant		154,710		154,710	172,878
26 Net investment in plant		872,258		872,258	843,110
27 Appreciation on true endowments			1,249,223	1,249,223	1,502,384
28 Funds functioning as endowments			840,999	840,999	891,379
29 Temporarily restricted					
30 Available for operations	315,594			315,594	304,852
31 Designated for plant		190,957		190,957	180,351
32 Funds functioning as endowments			64,514	64,514	52,386
33 Funds subject to living trust agreements			41,067	41,067	35,442
34 Funds held in trust			31,296	31,296	33,039
35 Permanently restricted					
36 Student loan funds			24,916	24,916	21,795
37 True endowments			938,841	938,841	876,986
38 Funds subject to living trust agreements			28,591	28,591	24,802
39 Funds held in trust			85,497	85,497	80,754
40 Total net assets	<u>587,624</u>	<u>1,217,925</u>	<u>3,304,944</u>	<u>5,110,493</u>	<u>5,269,830</u>
41 Total liabilities and net assets	<u>\$ 910,857</u>	<u>\$1,728,232</u>	<u>\$3,622,835</u>	<u>\$6,261,924</u>	<u>\$6,337,388</u>

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

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2001 (IN THOUSANDS)

(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2000)

	General Operations		Physical Capital		Unrestricted
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
Revenues and other additions					
1 Tuition and fees	\$ 435,434				
2 Scholarship allowance	(119,880)				
3 Net tuition and fees	315,554				
4 State appropriations	148,952		\$ 11,162		
5 Federal appropriations	19,637				
6 Federal grants and contracts	297,556				
7 State and local grants and contracts	21,850				
8 Private grants and contracts	23,691				
9 Contributions	111,295	\$ 50,305	11,888	\$ 6,677	\$ 22,017
10 Interest and dividends	53,532	4,520	6,216	3,508	23,543
11 Net realized gain (loss) on investments	8,176	(20)		50	18,006
12 Net unrealized gain (loss) on investments	(2,195)				(317,850)
13 Medical Physicians' Organization	259,991				
14 Enterprises and subsidiaries	123,610				
15 Educational departments	58,656		10		
16 Other sources	32,907	791	(2,164)	5,603	939
17 Total revenues	1,473,212	55,596	27,112	15,838	(253,345)
18 Investment payout	53,974	61,943	219		(54,193)
19 Net assets released from restrictions	72,487	(72,487)	8,992	(8,992)	
20 Capital investments (withdrawals)	(80,814)	(34,310)	96,543	3,760	3,997
21 Total revenues and other additions	1,518,859	10,742	132,866	10,606	(303,541)
Expenses (Note 8)					
22 Salaries and wages	821,159				
23 Employee benefits	164,448				
24 Purchased services	94,849				
25 Supplies and general	298,990				
26 Utilities, rents, and taxes	86,726				
27 Interest expense	30,329				
28 Depreciation			115,861		
29 Other			6,025		
30 Total expenses	1,496,501		121,886		
31 Change in net assets	22,358	10,742	10,980	10,606	(303,541)
32 Total net assets, beginning of year	249,672	304,852	1,015,988	180,351	2,393,763
33 Total net assets, end of year	\$ 272,030	\$ 315,594	\$ 1,026,968	\$ 190,957	\$ 2,090,222

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

Financial Capital		2001	2000	
Temporarily Restricted	Permanently Restricted	Total	Total	
		\$ 435,434	\$ 413,995	1
		(119,880)	(114,503)	2
		315,554	299,492	3
		160,114	157,262	4
		19,637	18,223	5
		297,556	286,006	6
		21,850	20,663	7
		23,691	17,761	8
\$ 10,290	\$ 60,209	272,681	505,760	9
21,978	467	113,764	118,549	10
38,818	4,233	69,263	257,168	11
177	(1,374)	(321,242)	185,671	12
		259,991	245,980	13
		123,610	122,531	14
		58,666	53,308	15
2,269	3,570	43,915	65,504	16
73,532	67,105	1,459,050	2,353,878	17
(61,943)				18
				19
4,421	6,403			20
16,010	73,508	1,459,050	2,353,878	21
		821,159	760,718	22
		164,448	164,900	23
		94,849	86,344	24
		298,990	291,732	25
		86,726	80,023	26
		30,329	29,696	27
		115,861	128,659	28
		6,025	12,457	29
		1,618,387	1,554,529	30
16,010	73,508	(159,337)	799,349	31
120,867	1,004,337	5,269,830	4,470,481	32
\$ 136,877	\$1,077,845	\$5,110,493	\$5,269,830	33

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2001 AND 2000 (IN THOUSANDS)

Cash flows from operating activities	2001	2000
1 Increase/(decrease) in net assets	(\$ 159,337)	\$ 799,349
2 Adjustments to reconcile change in net assets to net cash provided by operating activities		
3 Nonoperating items		
4 Contributions for physical and financial capital	(119,878)	(277,056)
5 Net realized gains on investments	(69,263)	(257,168)
6 Income restricted for financial capital	(4,037)	(26,944)
7 Noncash items		
8 Depreciation	115,861	128,659
9 Net unrealized (gains)/losses on investments	321,242	(185,671)
10 Loss on equipment disposals	3,657	13,961
11 Provision for receivable allowances	7,940	18,599
12 Accretion of bond discount	862	2,569
13 Other noncash items	(1,680)	1,138
14 Change in assets and liabilities		
15 Accounts receivable	2,975	(242,872)
16 Inventories and deferred charges	(1,784)	(2,920)
17 Accounts payable and accrued expenses	25,211	11,121
18 Deposits and deferred revenues	(7,642)	1,787
19 Deferred benefits	(9,100)	(288)
20 Refundable government grants	1,568	1,473
21 Net cash provided/(used) by operating activities	<u>106,595</u>	<u>(14,263)</u>
Cash flows from investing activities		
22 Proceeds from the sale of investments	4,678,000	3,372,576
23 Purchase of investments	(4,670,845)	(3,517,869)
24 Change in collateral received from securities lending activities (net)	79,649	0
25 Acquisition of land, buildings, and equipment (net)	(175,798)	(220,863)
26 Student loans granted	(9,114)	(9,528)
27 Student loans repaid	12,119	10,832
28 Change in funds held in trust for others	(5,693)	12,129
29 Net cash used by investing activities	<u>(91,682)</u>	<u>(352,723)</u>
Cash flow from financing activities		
30 Resources for long-term purposes		
31 Contributions restricted to		
32 Investment in true endowment	57,240	79,791
33 Investment in physical capital	10,438	128,508
34 Investment subject to living trust agreements	7,406	7,284
35 Income restricted for financial capital	4,037	26,944
36 Contributions designated for funds functioning as endowments	27,555	47,795
37 Other financing activities		
38 Principal payments of bonds, mortgages, and notes payable	(29,084)	(184,960)
39 Proceeds from issuance of bonds, mortgages, and notes payable	42,800	245,772
40 Change in obligations under living trust agreements	(14,698)	(4,054)
41 Net cash provided by financing activities	<u>105,694</u>	<u>347,080</u>
42 Net change in cash and cash equivalents	120,607	(19,906)
43 Cash and cash equivalents, beginning of year	34,688	54,594
44 Cash and cash equivalents, end of year	<u>\$ 155,295</u>	<u>\$ 34,688</u>

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

1. SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Organization

From a fiscal viewpoint, Cornell University consists of three major organizational units—Endowed Ithaca, which includes the endowed colleges, the central university administration, and the enterprise and service operations for the Ithaca campus; Contract Colleges at Ithaca (colleges operated by Cornell on behalf of New York State); and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences (Medical College) in New York City. All three units are subject to the common administrative authority and control of the Cornell University Board of Trustees and operate as self-supporting entities (net assets relating to one of the units are generally not available to the other units); the only legal limitations pertain to certain donor-restricted funds and funds of the contract colleges. Specifically, the laws establishing the contract colleges at Ithaca prohibit other segments of the university from using funds attributable to those colleges. Except as specifically required by law, the contract and endowed colleges at Ithaca are, to the extent practicable, governed by common management principles and policies determined within the private discretion of Cornell University. In addition to the three major organizational units, seven subsidiary corporations are included in the financial statements. All significant inter-company transactions and balances are eliminated in the accompanying consolidated financial statements.

B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, and presented in accordance with *The AICPA Audit and Accounting Guide for Not-for-Profit*

Organizations. The standards for general purpose external financial statements of not-for-profit organizations require a statement of financial position, a statement of activities, and a statement of cash flows, and are displayed based on the concept of “net assets.” The Audit Guide requires presentation of net assets and revenues, expenses, gains, and losses in three categories, based on the presence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted, and unrestricted net assets.

Permanently restricted net assets include the historical dollar amount of gifts, including pledges and trusts, as well as gains, all of which are explicitly required by donors to be permanently retained. Pledges and trusts are reported at their estimated fair value on the date of donation.

Temporarily restricted net assets include gifts, pledges, trusts, income, and gains that can be expended, but for which the use and purpose restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (e.g., capital projects, pledges to be paid in the future, and life income funds).

Unrestricted net assets are all the remaining net assets of the university, including appreciation on true endowments where the donor restrictions are deemed to have been met.

Temporarily restricted net assets are reported as reclassifications from temporarily restricted to unrestricted when the donor purpose has been fulfilled or when the stipulated time period has elapsed. Contributions that are released from restriction within the current fiscal year are classified as increases in unrestricted net assets in the year the contribution is received.

Table 1 shows a summary of the balances and changes in net assets by restriction class for the years ended June 30, 2001 and June 30, 2000.

Classifying and aggregating items with similar characteristics into reasonably homogeneous groups and separating items with differing characteristics is a basic reporting practice that increases the usefulness of the information. Cornell has chosen to separate financial statement activity into three primary groups: general operations, physical capital, and financial capital.

General operations includes the financial activities and balances that are the result of carrying on the primary and supporting missions of the university.

Physical capital includes the activities and balances related to the acquisition, renewal, and replacement of investment in the university's infrastructure, as well as debt service on that infrastructure.

Financial capital includes balances or activity related to amounts set aside for the long-term economic stability of the university. Table 2 shows the composition of financial capital net assets.

As of June 30, 2001, the university's true endowment net assets consist of approximately 15 percent for unrestricted purposes, 21 percent for student aid, 32 percent for instruction, and 32

percent for other donor-specified purposes. On June 30, 2000, the breakdown was 14 percent for unrestricted purposes, 22 percent for student aid, 32 percent for instruction, and 32 percent for other donor-specified purposes.

C. Living Trust Agreements

The university's living trust agreements with donors consist primarily of charitable gift annuities, charitable remainder trusts, and pooled income funds for which the university serves as trustee. Assets held in trust are either separately invested or included in the university's investment pools in accordance with trust instruments. Contribution revenue and the assets related to living trust agreements, net of related liabilities, are classified as increases in temporarily restricted net assets or permanently restricted net assets. Liabilities associated with charitable gift annuities and charitable remainder trusts represent the present value of the expected payments to the beneficiaries over the term of the agreement. Pooled income funds are recognized at the net present value expected to be received at a future date. Gains or losses resulting from changes in actuarial assumptions and accretion of the discount are recorded as increases or decreases in the respective net asset categories in the Statement of Activities.

TABLE 1. SUMMARY OF CHANGE IN NET ASSETS (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
1 Net assets at June 30, 1999	\$3,210,113	\$ 379,030	\$ 881,338	\$4,470,481
2000 change in net assets:				
2 General operations	15,195	83,651		98,846
3 Physical capital	43,729	112,036		155,765
4 Financial capital	390,386	31,353	122,999	544,738
5 Total change in net assets	449,310	227,040	122,999	799,349
6 Net assets at June 30, 2000	\$3,659,423	\$ 606,070	\$1,004,337	\$5,269,830
2001 change in net assets:				
7 General operations	22,358	10,742		33,100
8 Physical capital	10,980	10,606		21,586
9 Financial capital	(303,541)	16,010	73,508	(214,023)
10 Total change in net assets	(270,203)	37,358	73,508	(159,337)
11 Net assets at June 30, 2001	<u>\$3,389,220</u>	<u>\$ 643,428</u>	<u>\$1,077,845</u>	<u>\$5,110,493</u>

TABLE 2. COMPOSITION OF FINANCIAL CAPITAL NET ASSETS AT JUNE 30, 2001 (IN THOUSANDS)
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2000)

	Net Asset Classification			2001	2000
	Unrestricted	Temporarily Restricted	Permanently Restricted		
1 True endowment and unspent earnings, including contributions receivable of \$58,986	\$1,249,223		\$ 938,841	\$2,188,064	\$2,379,370
2 Functioning as endowment	840,999	\$ 64,514		905,513	943,765
3 Funds held in trust		31,296	85,497	116,793	113,793
4 Total university endowment	2,090,222	95,810	1,024,338	3,210,370	3,436,928
5 Living trust funds		41,067	28,591	69,658	60,244
6 Loan funds			24,916	24,916	21,795
7 Total	<u>\$2,090,222</u>	<u>\$ 136,877</u>	<u>\$1,077,845</u>	<u>\$3,304,944</u>	<u>\$3,518,967</u>

D. Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession or under the control of the university. These funds are administered by outside trustees, with the university deriving income or residual interest from the assets of the funds. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the university is notified of its existence. Contribution revenues related to these trusts for the fiscal years 2000-01 and 1999-00 were \$9,448,082 and \$656,619, respectively.

E. Funds Held in Trust for Others

Financial capital includes funds invested by the university as custodian for others. Independent trustees are responsible for the funds and for the designation of income distribution. The Center Fund, which benefits the New York Cornell Weill Center of the New York Presbyterian Hospital, accounted for \$86,792,335 and \$97,212,704 at June 30, 2001 and June 30, 2000, respectively. In addition, the present value of expected future income from The Center Fund of approximately \$33,916,000 and \$40,029,000 at June 30, 2001 and June 30, 2000, respectively, has been recorded in the net assets of financial capital.

F. Medical Physicians' Organization

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

G. Collections

Cornell's collections, which have been acquired through purchases and contributions since the university's inception, are recognized as assets on the statement of financial position. Gifts of collection items are recorded as increases in net assets in the year in which the items are acquired.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Actual results may differ from those estimates.

TABLE 3A. INVESTMENTS AT FAIR VALUE (IN THOUSANDS)

	2001	2000
1 Cash and cash equivalent holdings	(\$ 17,610)	\$ 21,116
2 Equity Securities		
3 Domestic	1,408,339	1,504,224
4 International	238,139	322,400
5 Debt Securities		
6 Domestic - government	502,316	481,191
7 Domestic - corporate debt securities	415,223	434,419
8 International - governments	66,226	100,148
9 International - corporate	25,727	23,514
10 Mortgages and other asset-backed securities	195,821	116,524
11 Other Investments		
12 Limited partnerships	978,262	1,061,723
13 Real Estate	38,050	43,786
14 Other	39,617	40,199
15 Total Investments	<u>\$3,890,110</u>	<u>\$4,149,244</u>

I. Comparative Financial Information

The statement of activities includes prior-year summarized information in total rather than net asset class. Such information does not include sufficient detail to constitute a presentation of prior-year data in conformity with accounting principles generally accepted in the United States of America.

Accordingly, such information should be read in conjunction with the university's financial statements for the fiscal year ended June 30, 2000, from which the summarized information was derived.

J. Reclassifications

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

K. Income Taxes

The university is a not-for-profit organization as described in section 501(c) (3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to the appropriate sections of the Internal Revenue Code.

L. Adoption of New Accounting Pronouncements

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*

The university adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as of July 1, 2000. SFAS No. 133, as amended by SFAS Nos. 137 and 138, requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in the fair value of the derivatives are included in the Statement of Activities in the period of the change.

The university records the fair value of its derivatives related to its investment securities within the applicable portfolio. The change in the fair value of these derivatives is included in *Net unrealized gain (loss) on investments* in the Statement of Activities.

Derivative instruments related to the university's long-term debt are included in *Physical Capital Accounts Payable* on the Statement of Financial Position. The change in the fair value of the derivative instruments is included in interest expense in the fiscal 2000-01 Statement of Activities.

The adoption of SFAS No. 133 did not have a material impact on the June 30, 2001 Statement of Financial Position or the Statement of Activities.

Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*

The university adopted the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, during fiscal year 2000-01. This standard requires the university to recognize an asset and an offsetting liability in the statement of financial position for the fair value of the collateral received in its securities lending activities. The impact of the adoption of SFAS No. 140 is included in note 2D.

2. CASH AND INVESTMENTS

A. General Information

Investment policy of the university is established by the Investment Committee of the Board of Trustees. University investments are stated at fair value. The value of fixed-income and publicly traded equity securities is based upon quoted market prices and exchange rates, if applicable. Private equities, real estate partnerships, and certain other nonmarketable securities are valued using current information obtained from the general partner or investment manager for the respective funds. Fees paid to managers in fiscal years 2000-01 and 1999-00 for investing the university's portfolios amounted to approximately \$7,800,000 and \$7,300,000, respectively. The composition of investments at June 30, 2001 and June 30, 2000 are shown in Table 3A.

Investment income is recorded on the accrual basis, and purchases and sales of investment securities are reflected on a trade-date basis.

Realized and unrealized gains and losses on investments are accounted for in the group (general operations, physical capital, or financial capital) holding the assets. Realized gains and losses are calculated on the average-cost basis. Income earned from investments or from services rendered is accounted for in the same group as the assets or service provider.

The university considers all instruments that bear an original maturity date of ninety days or less to be cash or a cash equivalent. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

B. Investment Pools and Separately Invested Portfolios

The university maintains a number of investment pools, and invests the principal of certain funds separately. Table 3B shows the investments by university category or pool.

The university's working capital and intermediate-term funds are invested for the production of income and capital appreciation on principal anticipated to be expended within three years.

The Long-Term Investment Pool is a mutual fund-like vehicle used for investing the university's true endowment funds, funds functioning as endowment, and other funds that are not expected to be expended for at least three years.

At June 30, 2001 and June 30, 2000, the market prices per unit were \$51.85 and \$58.16, respectively.

TABLE 3B. INVESTMENT POOLS/CATEGORIES AT FAIR VALUE (IN THOUSANDS)

	2001	2000
1 Working capital	\$ 11,501	\$ 47,940
2 Intermediate-term (resources for spending in less than 3 years)	374,675	356,740
3 Long-term investment pool (resources held for 3 years or longer)	3,043,876	3,287,965
4 Separately invested securities	308,134	311,810
5 Life income fund pools	20,698	22,345
6 DASNY holdings	79,714	88,008
7 Other purposes of investment	51,512	34,436
8 Total Investments	<u>\$3,890,110</u>	<u>\$4,149,244</u>

TABLE 4. SUMMARY INFORMATION — LONG-TERM INVESTMENT POOL

	Fair Value (in thousands)	Cost (in thousands)	Net Change (in thousands)	Fair Value Per Unit	Number of Units
Long-Term Investment Pool					
1 End of year	\$3,043,876	\$2,717,022	\$ 326,854	\$51.85	58,710,052
2 Beginning of year	\$3,287,965	\$2,621,119	666,846	\$58.16	56,529,745
3 Unrealized net gain/(loss) for year			(339,992)		
4 Change in interest receivable for year			(1,304)		
5 Realized net gain/(loss) for year			46,349		
6 Net gain/(loss) for year			<u>(\$ 294,947)</u>		

The Long-Term Investment Pool was invested, as of June 30, 2001, as a balanced fund consisting of 65 percent marketable-equity securities, 12 percent real estate and private-equity investments, and 23 percent bonds and fixed-income investments. At June 30, 2000, the pool consisted of 66 percent marketable-equity securities, 14 percent real estate and private-equity investments, and 20 percent bonds and fixed-income investments. The objective is to achieve a total return, net of expenses, of at least 5 percent in excess of inflation, as measured by the Consumer Price Index, over rolling five-year periods. Table 4 summarizes certain information about the Long-Term Investment Pool.

The university has a total return policy. Under this policy, a distribution from the pool is provided for program support that is independent of the cash yield and of appreciation of investments in that year. This insulates investment policy from budgetary pressures, and insulates the distribution from fluctuations in capital markets. The total return of the Long-Term Investment Pool was a loss of \$228,164,810 (-6.70 percent) for fiscal year 2000-01. The total return consisted of \$66,782,454 (1.96 percent) of income and \$294,947,264 (-8.66 percent) of depreciation.

Distributions from the pool are approved by the Board of Trustees as part of the financial planning process. The annual distribution is set so that a sufficient portion of the return is reinvested to maintain the purchasing power of the endowment, and to provide reasonable growth in the support of program budgets.

For the year ended June 30, 2001, distributions for investment payout were \$131,798,481 (\$2.30 per unit), of which \$116,135,716 supported general operations and physical capital. The remaining distribution of \$15,662,765 went to funds held in trust for others, shown in the accompanying

Statement of Financial Position. For the fiscal year ended June 30, 2000, the investment payout was \$106,675,045 (\$1.94 per unit). The distribution for 2001 was comprised of \$49,325,138 in net investment income and \$82,473,343 in capital appreciation, of which \$24,142,984 was paid from prior year accumulated gains. The distribution for 2000 was comprised of \$47,535,573 in net investment income and \$59,139,472 in capital appreciation.

The Separately Invested Portfolios consist of several types of funds that—for legal or other reasons, or by request of the donor—could not participate in any of the investment pools.

The Life Income Fund Pools consist of donated funds, the income from which is payable to one or more beneficiaries during their lifetime. On the termination of life interests, the principal becomes available for university purposes, which may or may not have been restricted by the donor.

C. Other Investments

Under the terms of certain limited partnership agreements, the university is obligated to periodically advance additional funding for private-equity and real estate investments. At June 30, 2001 and June 30, 2000 the university had commitments of approximately \$409,781,000 and \$262,270,000, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The university maintains sufficient liquidity in its investment portfolio to cover such calls.

The university engages in limited use of derivative instruments, including leverage futures, options, and other similar vehicles to manage market exposure and to enhance the total return of the investment portfolio. These financial instruments and certain other investments necessarily involve market risk and counterparty credit exposure.

D. Collateral Held for Investments Lent to Brokerage Firms

Investments securities having a fair value of \$77,334,071 at June 30, 2001 were lent to various brokerage firms. The loaned securities are returnable on demand and are collateralized by cash deposits. As required by SFAS 140, mentioned in note 1L, the university has recorded the fair value of the collateral received of \$79,648,645 in Financial Capital *cash and cash equivalents* and an offsetting liability for the return of the collateral in Financial Capital *deposits and deferred revenue* on the Statement of Financial Position at June 30, 2001. The collateral is invested in short-term securities and income earned is credited as additional income to the investment pools.

As of June 30, 2000, investment securities having a fair value of \$177,553,642 were lent to various brokerage firms and were collateralized by cash deposits of \$181,318,560. The collateral held at June 30, 2000 was not recorded on the Statement of Financial Position.

3. ACCOUNTS AND LOANS RECEIVABLE

A. Patient Accounts and Other

Patient accounts receivable at June 30, 2001 and June 30, 2000, are net of provisions for allowances and doubtful accounts of \$52,686,282 and \$60,583,041, respectively. Other accounts receivable, including student accounts, at June 30, 2001 and June 30, 2000 are net of allowances for doubtful accounts of \$1,265,228 and \$871,481, respectively.

B. Contributions

Contributions, which include unconditional written or oral promises to donate to the university in the future, are recognized when received. Contributions of approximately \$384,808,000 and \$408,364,000, representing the present value of future cash flows, are recorded as receivables at June 30, 2001 and June 30, 2000, respectively. The corresponding revenue is assigned to the appropriate net asset category in the year the promise is received. The face value, discount (7.25 percent for both fiscal years 2000-01 and 1999-00), and allowance for contributions receivable are shown in Table 5. Conditional promises are recorded when donor stipulations are substantially met. At June 30, 2001 and 2000, conditional promises and donor intentions not reflected in the financial statements were approximately \$114,273,000 and \$118,084,000, respectively. Expenses related to fund-raising activities amounted to approximately \$18,448,000 and \$18,392,000 for fiscal years 2000-01 and 1999-00, respectively.

C. Student Loans

Student loans receivable at June 30, 2001 and June 30, 2000, are reported net of allowances for doubtful loans of \$7,239,645 and \$7,714,626, respectively. The allowance is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers are still in school or in the grace period following graduation), that may not be collected.

TABLE 5. CONTRIBUTIONS RECEIVABLE (IN THOUSANDS)

	2001	2000
Contributions expected to be realized		
¹ In one year or less	\$ 97,327	\$ 126,425
² Between one year and five years	289,939	279,612
³ More than five years	<u>145,235</u>	<u>152,240</u>
⁴ Gross contributions receivable	532,501	558,277
⁵ Discount	(127,440)	(128,420)
⁶ Allowance	(20,253)	(21,493)
⁷ Total discount and allowance	<u>(147,693)</u>	<u>(149,913)</u>
⁸ Net contributions receivable	<u>\$ 384,808</u>	<u>\$ 408,364</u>

Determination of the fair value of student loans receivable could not be made without incurring excessive costs. These loans include donor-restricted and federally sponsored student loans that bear mandated interest rates and repayment terms, and are subject to significant restrictions on their transfer and disposition.

4. PLEDGED ASSETS AND FUNDS ON DEPOSIT

The Dormitory Authority of the State of New York (DASNY) and others hold investments in lieu of various required reserves as follows: \$11,909,880 and \$4,379,568 at June 30, 2001 and June 30, 2000, of financial capital; and \$1,113,450 and \$10,399,258, respectively, of general operations. Escrow held by the Workers' Compensation Board of New York includes investment securities of financial capital comprised of United States government obligations of \$105,000 and \$104,992 at June 30, 2001 and June 30, 2000, respectively.

Physical capital assets include cash and United States government obligations of \$24,591,446, and \$26,391,035 at June 30, 2001 and June 30, 2000, respectively, held by DASNY, that will be used primarily for the retirement of debt at a future time. In addition, \$51,699,904 and \$56,405,265 of bond proceeds were on deposit for future project expenditures at June 30, 2001 and 2000, respectively.

Student loan assets in general operations include \$3,422,286 and \$5,211,683 at June 30, 2001 and June 30, 2000, respectively, on deposit with DASNY that are available for the retirement of debt at a future time.

5. PHYSICAL CAPITAL

Physical plant and equipment are stated principally at cost at date of acquisition or at fair value on the date of donation, net of accumulated depreciation. Depreciation is computed on a straight-line basis over the useful lives of the buildings (30–100 years) and equipment (3–15 years). A full year of depreciation is taken in the year of acquisition, and no depreciation is taken in the year of disposal. Depreciation expense is reflected as a cost of physical capital.

Capital investments and withdrawals consist of net transfers to physical capital for principal payments on debt and the acquisition of capital assets.

Expenditures associated with the construction of new facilities are shown as construction in progress until the projects are completed. Land, buildings, and equipment are detailed in Table 6.

Gifts-in-kind of capital assets were approximately \$8,127,000 and \$5,953,000 for fiscal years 2000-01 and 1999-00, respectively.

Certain properties to which the university does not have title are included in physical capital at net book value as follows: (1) land and buildings in the amount of \$3,565,000 and \$3,735,000 at June 30, 2001 and June 30, 2000, respectively, that are leased from DASNY, the titles to which will pass to the university upon retirement of related indebtedness (see note 6); (2) land, buildings, and equipment of the contract colleges aggregating \$289,195,000 and \$278,203,000 at June 30, 2001 and June 30, 2000, respectively, the acquisition cost of which was borne primarily by New York State; and (3) land, buildings, and equipment for which title rests with government and corporate agencies aggregating \$27,172,000 and \$29,353,000 at June 30, 2001 and June 30, 2000, respectively.

TABLE 6. LAND, BUILDINGS, AND EQUIPMENT (IN THOUSANDS)

	Book value at June 30, 2000	Additions	Disposals and Closed Projects	Book value at June 30, 2001
1 Land, buildings, and improvements	\$1,468,389	\$ 117,807	\$ 258	\$1,585,938
2 Furniture, equipment, and books	808,471	71,831	53,136	827,166
3 Construction in progress	173,452	111,091	116,805	167,738
4 Total before accumulated depreciation	2,450,312	\$ 300,729	\$ 170,199	2,580,842
5 Accumulated depreciation	(1,062,368)			(1,128,491)
6 Land, buildings and equipment, net	<u>\$1,387,944</u>			<u>\$1,452,351</u>

TABLE 7. BONDS, MORTGAGES, AND NOTES PAYABLE (IN THOUSANDS)

	Balance June 30, 2001	Balance June 30, 2000	Interest Rates	Maturity Date	
Plant Funds					
1	Dormitory Authority of the State of New York (DASNY)				
2	Revenue Bond Series				
3	E	\$ 0	\$ 550	5.00	2001
4	1986	18,335	18,335	5.00	2015
5	1990B	59,600	59,800	2.60 to 4.57*	2025
6	1993	9,990	16,310	4.60 to 5.10	2005
7	1996	110,810	120,585	4.70 to 5.40	2014
8	2000A	67,250	67,250	1.70 to 5.25*	2029
9	2000B	86,715	88,135	1.70 to 5.25*	2030
10	Bond Series 1987B	16,885	17,625	11.11	2012
11	DASNY 1993 Pooled Loan Program	1,951	2,065	5.70 to 6.80*	2012
12	Commercial Paper	52,100	9,300	3.00 to 4.40*	2018
13	Student Loan Marketing Association	6,885	7,095	5.75 to 6.50	2019
14	Urban Development Corporation	3,500	3,625	zero	2029
15	Capitalized Leases	13,950	14,365	various	2020
16	GE Capital	0	254	9.78	2001
17	Private Foundation Line of Credit	10,000	15,000	zero	2003
18	Industrial Development Agency	49,275	50,000	4.30 to 6.00	2030
19	Other	361	509	various	2004
20	Total Physical Capital	<u>507,607</u>	<u>490,803</u>		
Student Loan Funds					
21	DASNY Bond 1992 Serial	1,305	2,530	6.20 to 6.30	2002
22	DASNY Bond 1992 Capital Appreciation	4,801	4,495	6.60 to 6.80	2009
23	DASNY Bond 1993 Serial	1,475	2,160	4.70 to 4.90	2003
24	DASNY Bond 1993 Capital Appreciation	2,778	2,634	5.25 to 5.50	2007
25	DASNY Bond 1995 Serial	7,415	8,590	4.75 to 5.45	2005
26	DASNY Bond 1995 Capital Appreciation	7,220	6,811	5.70 to 6.15	2011
27	Total General Operations—Student Loans	<u>24,994</u>	<u>27,220</u>		
28	Total Bonds, Mortgages, and Notes Payable	<u>\$ 532,601</u>	<u>\$ 518,023</u>		

* Rates presented are the actual rates paid during fiscal year 2000-01. These rates are variable based on market conditions.

6. BONDS, MORTGAGES, AND NOTES PAYABLE

The balance outstanding, interest rates, and final maturity dates of the bonds and other debt as of June 30, 2001 and June 30, 2000, are summarized in Table 7.

The total annual debt service requirements for the next five fiscal years and thereafter are shown in Table 8. Interest expense paid during fiscal year 2000-01 and 1999-00 was approximately \$26,767,000 and \$27,127,000, respectively. Debt and debt service related to borrowings by New York State for the construction and renovation of facilities of the contract colleges are not included in the financial statements because they are not liabilities of the university.

Under agreement with DASNY, certain revenues, principally rental income from facilities financed by bond proceeds plus a portion of tuition, are pledged by the university to meet debt service requirements (see note 4). Also, certain revenue bonds require maintenance of an asset-to-liability ratio.

The fair value of the university's bonds, mortgages, and notes payable is approximately \$541,427,000 and \$515,927,000 at June 30, 2001 and June 30, 2000, respectively. The estimated fair value of bonds is based on quoted market prices for the same or similar issues. The market prices utilized reflect the amount a third party would pay to purchase the bonds; they do not reflect an additional liability to the university.

TABLE 8. ANNUAL DEBT SERVICE REQUIREMENTS (IN THOUSANDS)

Year	Annual Installment		
	Principal	Interest	Total
1 2002	\$ 32,020	\$ 24,973	\$ 56,993
2 2003	24,792	23,488	48,280
3 2004	19,783	22,719	42,502
4 2005	19,959	21,822	41,781
5 2006	18,662	21,288	39,950
6 Thereafter	417,385	218,607	635,992
7 Total	\$ 532,601	\$ 332,897	\$ 865,498

In fiscal year 1999-00, the university finalized an interest rate swap agreement to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under this arrangement, the counter party will pay the university a variable interest rate equal to the BMA index, on a notional amount of \$87,200,000, and the university will pay the counter party a fixed interest rate of 4.62%. Net payments or receipts under the swap agreement are recorded as an adjustment to interest expense.

The university continues to issue commercial paper under an agreement entered into in fiscal year 1998-99 for \$100,000,000. Under the agreement, a total of \$490,000,000 of principal may be issued, with a maximum of \$100,000,000 outstanding at any one time. The funds may be used for new capital projects, and to re-finance earlier projects.

7. BENEFIT PLANS

A. Pension Plans

The university's employee pension plan coverage for Endowed Ithaca and the Medical College is provided by two basic types of plan: that based on a predetermined level of funding (defined contribution) and that based on a level of benefit to be provided (defined benefit). The primary plans for Endowed Ithaca and for exempt employees (those not subject to the overtime provisions of the Fair Labor Standards Act) at the Medical College are carried by the Teachers Insurance and Annuity Association and the College Retirement Equities Fund, which also permit employee contributions. Medical College non-exempt employees and certain non-exempt employees of Endowed Ithaca are covered by defined benefit plans. Certain accrued benefits and an appropriate amount of the university's pension reserves are frozen in connection with plan reorganizations.

The pension liabilities recognized by the university in connection with the frozen plans were established by charges to expenses in prior years, to meet future retirement costs for current employees. Although the liabilities are considered internally funded, they are not intended to create a trust or fund in which any employee or former employee has any right or interest of any kind.

In accordance with ERISA requirements for the defined benefit plans, the university must annually fund with an independent trustee an actuarially determined amount that represents normal costs plus amortization of prior service costs over a forty-year-period that began on July 1, 1976.

The defined benefit plans' funded status, amounts recognized in the university's statement of financial position at June 30, 2001, and assumptions used for calculations are shown in Table 9.

Total pension costs of the Endowed Ithaca and Medical College plans for the year ended June 30, 2001 and June 30, 2000, amounted to \$43,674,080 and \$40,101,274, respectively.

Employees of the contract colleges are covered under the New York State pension plan. Contributions to the state retirement system and other fringe-benefit costs are paid directly by the state. The amount of the direct payments applicable to the university as revenue and expenditures is not currently determinable and is not included in the financial statements. The university reimburses the state for fringe-benefit costs on certain salaries, principally those associated with externally sponsored programs. The amount reimbursed to the state during the years ended June 30, 2001 and June 30, 2000, was \$8,722,818 and \$7,881,294, respectively, which are included in the expenses of general operations.

TABLE 9. DEFINED BENEFIT PENSION PLANS – BENEFIT OBLIGATIONS, NET ASSETS AND COST (IN THOUSANDS)

			2001		2000			
	Endowed	Ithaca*	Medical College	Combined	Endowed	Ithaca	Medical College	Combined
Change in benefit obligation								
1	\$	21,272	\$	27,374	\$	48,646	\$	48,461
2		1		1,582		1,583		1,086
3		1,457		1,967		3,424		3,379
4	(	130)		1,608		1,478	(	228)
5	(	2,093)	(	2,087)	(	4,180)	(	4,052)
6		<u>20,507</u>		<u>30,444</u>		<u>50,951</u>		<u>48,646</u>
Change in plan assets								
7		37,939		40,600		78,539		77,246
8	(	2,004)	(	2,076)	(	4,080)		5,345
9	(	2,093)	(	2,087)	(	4,180)	(	4,052)
10		<u>33,842</u>		<u>36,437</u>		<u>70,279</u>		<u>78,539</u>
11		13,335		5,993		19,328		29,893
12		299	(	92)		207		415
13				223		223		331
14	(	282)	(	3,704)	(	3,986)	(	17,134)
15	\$	<u>13,352</u>	\$	<u>2,420</u>	\$	<u>15,772</u>	\$	<u>13,505</u>
Net periodic pension cost components								
16	\$	1	\$	1,582	\$	1,583	\$	1,486
17		1,457		1,967		3,424		3,379
18		2,004		2,076		4,080	(	5,345)
19								
20		299	(	92)		207		207
21		0		108		108		108
22	(	194)	(	622)	(	816)	(	1,055)
23	(	5,326)	(	5,527)	(	10,853)	(	1,328)
24	(\$)	<u>1,759</u>	(\$)	<u>508</u>	(\$)	<u>2,267</u>	(\$)	<u>2,548</u>
Assumptions used in accounting for the plans as of June 30								
25		7.25%		7.25%		7.25%		7.25%
26		9.00%		9.00%		9.00%		9.00%
27		4.00%		6.10%		4.00%		6.10%

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

B. Postretirement Benefits Other Than Pensions

The university provides health and life insurance benefits for eligible retired employees and their dependents. Although there is no legal obligation for future benefits, the cost of postretirement benefits must be accrued during the service lives of employees. The university elected the prospective-transition approach and is amortizing the transition obligation over twenty years, through fiscal year 2012-13.

The plan assets for Endowed Ithaca and the Medical College are invested with an outside trustee.

Table 10 sets forth the funded status of the plans as of June 30, 2001 and June 30, 2000, the components of net periodic postretirement benefit costs for 2001 and 2000, and the assumptions used in accounting for the plans during 2001 and 2000. The accrued postretirement benefit cost shown in Table 10 is \$1,730,000 of current-year funded surplus plus \$34,430,000 of accumulated prior-year unfunded cost.

C. Postemployment Benefits

The university provides various benefits to former or inactive employees after employment, but before retirement. The expected costs of these benefits are recognized when they are earned, even though there may not be any legal requirement to continue the programs. Current-year estimated costs are allocated among the expenses of general operations.

8. FUNCTIONAL EXPENSES AND STUDENT AID

Table 11 shows expenses by functional category for General Operations and Physical Capital. Expenses for operations and maintenance of facilities, depreciation, and interest have been allocated to functional categories using square-footage statistics. The amount allocated for operations and maintenance was approximately \$130,518,000 for fiscal year 2000-01, and \$122,448,000 for fiscal year 1999-00.

Institutionally provided student financial assistance that is not given in exchange for services is shown as a discount against revenue rather than as an expense. Aid in excess of the institution's actual tuition and fees, of \$17,925,386 and \$14,728,600 for fiscal years 2000-01 and 1999-00, respectively, is classified as instruction expense.

9. CONTINGENT LIABILITIES

The university is a defendant in various legal actions, some of which are for substantial monetary amounts, that arise out of the normal course of its operations. Although the final outcome of the actions cannot currently be determined, the university's administration is of the opinion that eventual liability, if any, will not have a material effect on the university's financial position.

The university retains self insurance for property, general liability, and certain health benefits, and has an equity interest in a multiprovider captive insurance company.

TABLE 11. FUNCTIONAL EXPENSES (IN THOUSANDS)

	General Operations	Physical Capital	2001	2000
1 Instruction	\$ 344,925	\$ 24,671	\$ 369,596	\$ 357,788
2 Research	349,076	22,903	371,979	358,895
3 Public service	91,570	2,488	94,058	87,636
4 Academic support	110,661	26,224	136,885	131,997
5 Student services	77,836	9,539	87,375	84,132
6 Medical services	246,208	2,119	248,327	229,266
7 Institutional support	144,997	14,088	159,085	153,945
8 Enterprises and subsidiaries	131,228	19,854	151,082	150,870
9 Total expenses and deductions	<u>\$1,496,501</u>	<u>\$ 121,886</u>	<u>\$1,618,387</u>	<u>\$1,554,529</u>

ADMINISTRATION

JULY 1, 2001

UNIVERSITY ADMINISTRATION

Hunter R. Rawlings III, *President*
C. Bidy Martin, *Provost*
Antonio M. Gotto, Jr., *Provost for Medical Affairs and Stephen and Suzanne Weiss Dean of the Joan and Sanford I. Weill Medical College*

Kraig K. Adler, *Vice Provost for the Life Sciences*
Carolyn N. Ainslie, *Vice President for Budget and Planning*
Walter I. Cohen, *Vice Provost*
J. Robert Cooke, *Dean of the University Faculty*
Harold D. Craft, *Vice President for Administration and Chief Financial Officer*
Doris Davis, *Associate Provost for Admissions and Enrollment*
Joanne M. DeStefano, *Acting Vice President for Financial Affairs and University Controller*
Henrik N. Dullea, *Vice President for University Relations*
Francille Firebaugh, *Vice Provost for Land Grant Affairs*
Robert L. Harris, Jr., *Vice Provost for Diversity and Faculty Development*
Kent L. Hubbell, *Robert W. and Elizabeth C. Staley Dean of Students*
Isaac Kramnick, *Vice Provost for Undergraduate Education*
Polley Ann McClure, *Vice President for Information Technologies*
James J. Mingle, *University Counsel and Secretary of the Corporation*
Susan H. Murphy, *Vice President for Student and Academic Services*
Mary G. Opperman, *Vice President for Human Resources*
Inge T. Reichenbach, *Vice President for Alumni Affairs and Development*
Robert C. Richardson, *Vice Provost for Research*
John Silcox, *Vice Provost for the Physical Sciences and Engineering*

ACADEMIC UNITS

College of Agriculture and Life Science
Susan A. Henry, *Ronald P. Lynch Dean*
College of Architecture, Art, and Planning
Porus D. Olpadwala, *Dean*
College of Arts and Sciences
Philip E. Lewis, *Harold Tanner Dean*
College of Engineering
Harold G. Craighead, *Interim Dean*
College of Human Ecology
Patsy M. Brannon, *Dean*
College of Veterinary Medicine
Donald F. Smith, *Dean*
Graduate School
Alison G. Power, *Interim Dean*
Law School
Lee E. Teitelbaum, *Dean*
School of Continuing Education and Summer Sessions
Glenn C. Altschuler, *Dean*
School of Hotel Administration
David W. Butler, *Dean*
School of Industrial and Labor Relations
Edward J. Lawler, *Dean*
S. C. Johnson Graduate School of Management, Robert J. Swieringa, *Anne and Elmer Lindseth Dean*
Weill Graduate School of Medical Sciences
David P. Hajjar, *Dean*
Weill Medical College
Antonio M. Gotto Jr., *Stephen and Suzanne Weiss Dean*

Computing and Information Science
Robert L. Constable, *Dean*
Division of Nutritional Sciences
Jere D. Haas, *Director*
Cornell University Library
Sarah E. Thomas, *Carl A. Kroch University Librarian*

BOARD OF
TRUSTEES AND
TRUSTEE FELLOWS
JULY 1, 2001

Harold Tanner, *Chairman*
Ronay A. Menschel, *Vice Chairman*
Edwin H. Morgens, *Vice Chairman*

Ex Officio Members

Hunter R. Rawlings III, *President of
Cornell University*
George E. Pataki, *Governor of New York State*
Joseph L. Bruno, *Temporary President of the
New York State Senate*
Sheldon Silver, *Speaker of the
New York State Assembly*

Other Members

Ellen Gussman Adelson	Thomas A. Mann
John E. Alexander	Kevin M. McGovern
Robert J. Appel	Peter C. Meinig
Stephen B. Ashley	Denise P. Meridith
Leslie C. Barkemeyer	Howard P. Milstein
Khary P. Barnes	Elizabeth D. Moore
Steven B. Belkin	Rebecca Q. Morgan
Robert T. Blakely	Edwin H. Morgens
Ann Schmeltz Bowers	Carolyn Chauncey Neuman
Michael W. N. Chiu	James A. Ortenzio
J. Thomas Clark	Roy H. Park Jr.
Abby Joseph Cohen	Jeffrey P. Parker
Paul F. Cole	Andrew M. Paul
Ezra Cornell	Robert A. Paul
Edward Cunningham Jr.	Bruce S. Raynor
Diana M. Daniels	Celia E. Rodee
Miguel A. Ferrer	Irene Blecker Rosenfeld
Samuel C. Fleming	Jerold R. Ruderman
Barbara B. Friedman	Richard J. Schwartz
William E. Fry	Peter C. Stein
H. Laurance Fuller	C. Evan Stewart
Blanche S. Goldenberg	Martin Y. Tang
Paul A. Gould	Peter G. Ten Eyck II
Myra Maloney Hart	Samuel O. Thier
Michael L. Huyghue	Cynthia M. Tkachuck
Karen Rupert Keating	Philip M. Young
Robert D. Kennedy	Craig Yunker
Harvey Kinzelberg	David W. Zalaznick
Carol B. MacCorkle	Jan Rock Zubrow

COMMITTEES OF THE BOARD OF TRUSTEES

Executive Committee

Peter C. Meinig, *Chairman*
Barbara B. Friedman, *Vice Chairman*

Investment Committee

Robert J. Appel, *Chairman*
Paul A. Gould, *Vice Chairman*
Andrew M. Paul, *Vice Chairman*

Audit Committee

Diana M. Daniels, *Chairman*
Martin Y. Tang, *Vice Chairman*

Finance Committee

Robert T. Blakely, *Chairman*
Samuel C. Fleming, *Vice Chairman*

**Committee on Land Grant and
Statutory College Affairs**

Paul F. Cole, *Cochairman*
Peter G. Ten Eyck II, *Cochairman*

Buildings and Properties Committee

Stephen B. Ashley, *Chairman*
Howard P. Milstein, *Vice Chairman*

Committee on Board Membership

Ronay A. Menschel, *Chairman*
Diana M. Daniels, *Vice Chairman*

**Committee on Alumni Affairs and
Development**

J. Thomas Clark, *Cochairman*
Jeffrey P. Parker, *Cochairman*
C. Evan Stewart, *Vice Chairman*
Jan Rock Zubrow, *Vice Chairman*

**Committee on Academic Affairs
and Campus Life**

Ann Schmeltz Bowers, *Cochairman*
Robert D. Kennedy, *Cochairman*
Thomas A. Mann, *Vice Chairman*
Rebecca Q. Morgan, *Vice Chairman*

**Trustee-Community Communications
Committee**

Ezra Cornell, *Chairman*
Cynthia M. Tkachuck, *Vice Chairman*

EMERITUS TRUSTEES

Emeritus Chairmen of the Board

Austin H. Kiplinger
Jansen Noyes Jr.
Stephen H. Weiss

Other Emeritus Trustees

Robert H. Abrams
Lilyan H. Affinito
Albert E. Arent
Richard A. Aubrecht
Robert W. Bitz
Kenneth H. Blanchard
James L. Broadhead
Richard C. Call
Hays Clark
James M. Clark
Laura J. Clark
Barber B. Conable Jr.
Robert A. Cowie
Kenneth T. Derr
John S. Dyson
Robert R. Dyson
Anne Evans Estabrook
Fred J. Eydt
Mary C. Falvey
Joan H. Ferreira
Stephen W. Fillo
Earl R. Flansburgh
James Lowell Gibbs Jr.
Robert S. Hatfield
Joseph H. Holland
H. Fisk Johnson
Samuel C. Johnson
Thomas W. Jones
Albert J. Kaneb
Charles W. Lake Jr.
Benson P. Lee
Charles R. Lee
Jon A. Lindseth
Sol M. Linowitz
Eli Manchester Jr.
Dale Rogers Marshall
Robert W. Miller
John P. Neafsey
Margaret Osmer-McQuade
George Peter
William E. Phillips
Samuel R. Pierce Jr.
Bernard W. Potter
Curtis S. Reis
William R. Robertson
Nelson Schaenen Jr.

Jack Sheinkman
Daniel G. Sisler
Robert W. Staley
Charles T. Stewart
Patricia Carry Stewart
Allan R. Tessler
Paul R. Tregurtha
Charles E. Treman Jr.
Richard F. Tucker
Sanford I. Weill
Roger J. Weiss
Bruce Widger

**WEILL MEDICAL COLLEGE
AND WEILL GRADUATE SCHOOL
OF MEDICAL SCIENCES
BOARD OF OVERSEERS—JULY 1, 2000**

Sanford I. Weill, *Chairman*
Arthur J. Mahon, *Vice Chairman*
H.H. Sheika Mouza Nasser Al Misnad
Hushang Ansary
Elizabeth G. Armstrong
Brooke Astor+
Robert A. Belfer
Kevin R. Brine
Abby Joseph Cohen
Daniel P. Davison+
Sanford Ehrenkranz
Eleanor T. Elliott
Anne E. Estabrook
Barbara B. Friedman
Antonio M. Gotto Jr.*
Maurice R. Greenberg
David P. Hajjar*
Leonard M. Harlan
Raymond Herrmann Jr.+
Thomas W. Jones
H. Michael Keyoung
Harvey Klein
John McGillicuddy
Howard P. Milstein
Paul F. Miskovitz
Edwin H. Morgens
John P. Neafsey
Frank N. Newman
Jansen Noyes Jr.+
Margaret Osmer-McQuade+
Mark Pasmantier
Hunter R. Rawlings III*
Frank H. T. Rhodes
Isadore Rosenfeld
Zev Rosenwaks
Paul Roth

Peter M. Sacerdote
Marc Shapiro
Herbert J. Siegel
AJC Smith
Daisy Margaret Soros
Saul P. Steinberg+
Charles T. Stewart+
Patricia Carry Stewart+
Harold Tanner*
Samuel O. Thier
Richard F. Tucker+
Roger J. Weiss
Stephen H. Weiss+

* Ex officio
+ Life Overseer

Cover photo courtesy of
Cornell University Photography

Cornell University is an equal-opportunity,
affirmative-action educator and employer.

♻️ This report is printed on recycled paper.



CORNELL
UNIVERSITY

Treasurer's Office
102 Prospect Street
Suite 300
Ithaca, NY 14850-5650

stamps.com **\$1.260**
OCT 29 2001
US POSTAGE
FIRST-CLASS MAIL
ITHACA, NY 14850



Theodore S Michaels
Document Control Desk
U.S. Nuclear Regulatory Commission
Office of Nuclear Reactor Regulations
Washington DC 20555-0001