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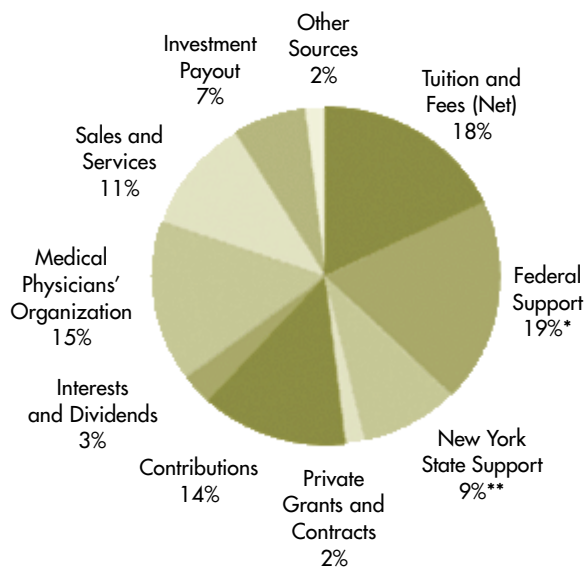
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CORNELL UNIVERSITY HIGHLIGHTS

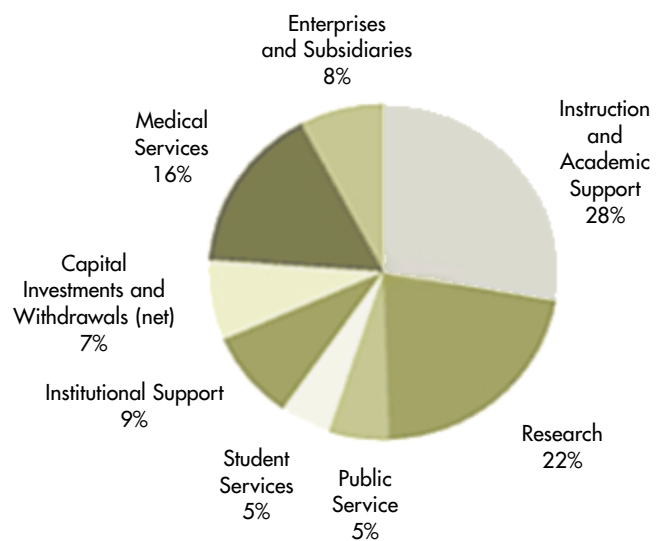
	1991-92	1996-97	2001-02
<b>Fall enrollment (excluding in absentia)</b>			
Undergraduate	12,915	13,512	13,801
Graduate	4,543	4,200	4,435
Professional	<u>1,777</u>	<u>1,766</u>	<u>1,905</u>
Total fall enrollment	<u>19,235</u>	<u>19,478</u>	<u>20,141</u>
<b>Degrees granted</b>			
Baccalaureate degrees	3,442	3,527	3,565
Masters degrees	1,345	1,457	1,572
Ph.D. degrees	543	520	418
Other doctoral degrees (J.D., M.D., D.V.M.)	<u>384</u>	<u>372</u>	<u>361</u>
Total degrees granted	<u>5,714</u>	<u>5,876</u>	<u>5,916</u>
<b>Tuition rates</b>			
Endowed Ithaca	\$16,170	\$20,900	\$25,970
Contract Colleges			
Resident	\$ 6,450	\$ 8,800	\$11,970
Nonresident	\$11,950	\$17,060	\$22,200
Medical Campus	\$19,900	\$24,000	\$28,500
Business	\$17,300	\$22,450	\$29,500
Law	\$17,000	\$22,100	\$29,200
Veterinary medicine	\$10,100	\$13,450	\$16,540
<b>Volumes in library (in thousands)</b>	5,469	6,113	7,136
<b>Academic workforce</b>			
Full-time employees			
Faculty	2,625	2,659	2,821
Nonfaculty	865	891	1,008
Part-time employees			
Faculty	120	132	152
Nonfaculty	172	185	176
Total academic workforce	<u>3,782</u>	<u>3,867</u>	<u>4,157</u>
<b>Nonacademic workforce</b>			
Full-time employees	7,644	7,274	8,413
Part-time employees	581	616	749
Total nonacademic workforce	<u>8,225</u>	<u>7,890</u>	<u>9,162</u>

	1991-92	1996-97	2001-02
<b>Selected financial capital—net assets</b>			
Book value of total university endowment (in millions)	\$ 970.3	\$1,796.3	\$2,771.5
Market value of total university endowment (in millions)	\$1,078.3	\$2,155.1	\$2,920.1
Unit value of Long-Term Investment Pool	\$ 25.36	\$ 41.51	\$ 44.95
Gifts received, excluding pledges (in millions)	\$ 177.8	\$ 220.6	\$ 363.0
New York State appropriations through S.U.N.Y. (in millions)	\$ 118.2	\$ 126.9	\$ 142.2
Medical Physicians' Organization fees (in millions)	\$ 163.2	\$ 219.5	\$ 283.1
<b>Sponsored research volume (in millions)</b>			
Direct expenditures	\$ 165.3	\$ 193.6	\$ 270.0
Indirect-cost recovery	\$ 57.7	\$ 68.5	\$ 93.5
<b>Selected physical capital items</b>			
Additions to land, buildings, and equipment (in millions)	\$ 99.2	\$ 208.9	\$ 305.1
Cost of land, buildings, and equipment (in millions)	\$1,545.5	\$2,043.2	\$2,696.4
Outstanding bonds, mortgages, and notes payable (in millions)	\$ 476.4	\$ 444.6	\$ 518.6

**GENERAL OPERATIONS REVENUES 2001-02**



**GENERAL OPERATIONS EXPENSES 2001-02**



\* Appropriations 1%  
Grants 18%

\*\* Appropriations 8%  
Grants 1%

## MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND CHIEF FINANCIAL OFFICER

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During this past year, marked so starkly by national tragedy, the university remained a healthy and vibrant institution. We are acutely aware that the events of September 11, 2001 touched members of the Cornell community deeply, and, in some cases, very personally. Yet the campus community began its recovery almost immediately when thousands of Cornell faculty, students, and staff, as well as citizens from our local community, gathered on the arts quad on September 14, 2001 in an unprecedented, nationally noted memorial ceremony. And the campus community continues to recover: learning, teaching, and research have resumed with vigor.

Our institution remains strong, both academically and fiscally. Freshman applications reached an all-time high, with over 21,500 applicants for the approximately 3,000-member first-year class. Entering students continue to be extraordinary individuals; academically more than four out of five are in the top 10% of their high school classes. The number of applicants for Cornell's graduate and professional programs continues to rise. Research volume continues to increase. While grants and contracts from the State of New York have increased by a modest 3.2%, federal and private grants and contracts have increased a surprising 10.9% and 43.4% respectively, with much of the increase seen at the Weill Medical College. Despite the uncertain economy, philanthropy continues to be strong, with \$363 million in cash donated to the university, an all-time high.

For the 24<sup>th</sup> year in a row, Cornell's operating budget was in balance (actually with a slight surplus). Although the endowment market value decreased due to the general market and economic downturns, the endowment's diversified nature blunted some of this decrease. Additionally, payout from the endowment for operations provided welcome stability. With the help of friends and alumni of the university, Cornell continues to have the means to construct the necessary facilities to support its academic and operational research priorities. Operating budgets have been sufficient to maintain campus facilities and grounds in good condition—the university persists as a strikingly beautiful place in which to live, study, and pursue one's curiosity.

At an institution with the health and vitality of Cornell, there is, of course the temptation to try to do too much at once. At the founding of the university, Ezra Cornell provided the well-known direction: "I would found an institution where any

person can find instruction in any study." That sentiment has guided the institution since that time, and has encouraged its great breadth of instructional opportunities and research adventures. Yet, such an open-ended challenge needs to be thoughtfully approached and nurtured.

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*"...the university persists as a strikingly beautiful place in which to live, study, and pursue one's curiosity."*

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Early in his tenure as president of the university, Hunter Rawlings articulated a contemporary variation of that original mission, stating Cornell's intention to provide "the best undergraduate education in a great research university in the United States." A strategy to achieve that mission was subsequently developed. The key elements of this strategy are: (1) to improve the undergraduate living and learning environment, (2) to pursue strategic science, (3) to highlight and enhance development in the humanities and social sciences, (4) to build the faculty of the future, (5) to enhance diversity among Cornell's faculty, students, and staff, (6) to increase information technology capabilities for faculty, students, and staff, (7) to fortify Cornell's long-standing relationship with New York State and the State University of New York (SUNY), (8) to maintain broad student access to a Cornell education, and (9) to maintain Cornell's quality by encouraging sound resource management and carefully planned improvements. The aggregate of these individual elements is referred to as the university "priorities" for the Ithaca campus. An earlier strategic planning process that began under President Frank Rhodes provided the context for many of these priorities.

Since 1994, the Weill Cornell Medical College has been engaged in a similar strategic planning process to examine critically its research, education, and clinical practice missions. That process resulted in a two-phase strategic plan, the first of which focused primarily on education and research infrastructure, and is largely completed; phase II, a collection of

major initiatives with an emphasis on clinical program enhancement, is now under way.

The pursuit, university-wide, of these strategic elements now determines to a large extent the allocation of resources and energies throughout the university, and generates significant fund-raising challenges. When completed, today's focused initiatives will have dramatically changed and enriched the academic and physical landscape of Cornell, in Ithaca and in New York City. The fundamental importance of these initiatives, and their potential long-lasting impacts, make them an appropriate subject for this report.

## **ITHACA**

Good progress has been made in satisfying all nine Ithaca campus priorities. The following is a brief update on actions in each of the areas, with particular emphasis on the academic initiatives, which form the fundamental underpinnings of the university.

### **To improve undergraduate education and the living/learning experience**

This objective has led to two major residential community initiatives. The first, a \$65 million expansion to the North Campus residential community included the construction of new residence halls and dining facilities, the relocation of athletic fields, the creation of new faculty-in-residence apartments, and the renovation of some existing residence facilities. North Campus residences now house all freshmen, where their collocation encourages a greater sense of community, greater class unity, and enhanced educational opportunities. The limited experience so far shows this arrangement to be highly successful.

The \$200 million West Campus initiative, currently in the planning stage, is based on an established concept that has proven successful at other well-known universities. The university will replace the Class Halls and Noyes Center with five new residential houses and a recreation/community center. Approximately 360 students will live in each of these houses, which will be led by a senior faculty member. The purpose of these West Campus houses is to provide informal interaction with faculty members, opportunities for personal and intellectual growth, self-governance, and social and cultural programming. Each will have its own

dining room, commons area, library, and rooms for computing, seminars, music practice, and socializing. The new houses will provide an intellectually rich living-learning experience for upperclassmen that will be different from any living arrangement currently offered by the university.

As Provost Carolyn Martin noted in a recent message to the campus community, "most initiatives in undergraduate education originate with the faculty, in departments, and programs and colleges." Specifically, Provost Martin reported that "the faculty of the College of Arts and Sciences have adopted a . . . proposal to modify the humanities and social sciences distribution requirements," and that they have established sophomore seminars giving students "more opportunities to study with distinguished professors in small group settings." In addition to these initiatives, the university has also begun a series of comprehensive efforts to reinvigorate the undergraduate program in ethics and public life; to increase opportunities for undergraduates to engage in research and experiential learning; to improve the Greek life experience; to enhance Cornell's alcohol education program; and to expand civic engagement through student and faculty involvement in the local community and throughout New York State.

### **To pursue strategic science**

A 1997 task force of faculty, deans, and administrators identified three strategic research areas in the physical sciences; Computing and Information Science, Genomics (now more broadly denoted as the New Life Sciences Initiative), and Advanced Materials. Developments in nanoscience (originally envisioned as part of advanced materials science) have expanded so rapidly as to constitute a *de facto* fourth area.

All of these disciplines share at least two characteristics: in each Cornell is already a national leader, and all are areas that encourage, even require, collaboration among faculty from many different disciplines. For example, a research program in the life sciences might involve a group of faculty with collective expertise in medicine, veterinary medicine, biology, nanoscale systems, and computer technology.

These strategic research areas are being physically supported by the current construction of Duffield Hall for nanotechnology, and the proposed Life Sciences Technology building, now in early design. Additionally, disciplines within these

areas are being advanced through enhanced external funding, strategic hiring of new faculty, and reallocation of existing faculty positions and funding.

### **To highlight and enhance developments in the humanities and social sciences**

For several years, a faculty task force has worked to develop strategies to strengthen the social science disciplines and to recommend areas for strategic investment. This work has resulted in additional investments in the areas of poverty and international development, in decision theory, and in life course studies. A center for the study of inequality has been created, as has an academy for the social sciences in which a dozen or so faculty, from Cornell and elsewhere, will work on common themes. New faculty positions have been established in government and economics, and “bridge funds” will be provided to help recruit distinguished social scientists. The College of Arts and Sciences has already received bridge funding for appointments in American government, history, film, and literature, and a permanent position has been added for a historian of the Middle East. Finally, a task force is now meeting to develop recommendations for strengthening Cornell’s ethnic studies and Africana studies programs.

### **To continue to improve faculty and staff compensation**

Cornell engages in fierce competition with its peer institutions to attract and retain the best faculty. The fact that fully 40% of current faculty will reach the age of 65 within the next decade adds an extra edge to the challenge.

Cornell certainly competes handily with its peers with regard to academic stimulation, student quality, research opportunity, and attractiveness of the campus. However, in recent years the university had fallen behind its competition with regard to faculty salaries. In response, the university has now committed resources over a multi-year period to enhance faculty and staff compensation. In the case of faculty, the Faculty Senate, the academic deans, and the administration agreed in 1999 to define two sets of peer reference groups (one for endowed Ithaca faculty and one for contract college faculty) against which salary improvement would be measured. The goal of this plan is to raise Cornell’s faculty salaries to the peer-group average within a five to six-year period. Good progress has been made, with several years of effort yet remaining.

Cornell’s salaries had also slipped slightly in certain staff job categories, with respect to their respective market standards. A separate goal, stated in terms of external market averages, has been set for staff salaries. Good progress has been made here, also.

### **To enhance diversity among Cornell’s faculty, staff, and students and work actively against bias-related incidents**

The university has developed several innovative programs to raise diversity topics within the Cornell community and to foster a better understanding of cross-cultural issues. Cornell has also conducted a gender-equity salary study and continues to improve university-wide coordination to facilitate spousal appointments.

### **To increase the information technology capabilities for faculty, students, and staff**

Prominent in the initiatives to respond to this priority is a plan to upgrade the Ithaca campus network infrastructure, a roughly \$60 million, multi-year project. In addition, a \$10 million increase has been provided in the annual support for administrative systems development and maintenance—a major administrative system overhaul and expansion is in progress. To support distance learning, the university is also exploring technology that would link Cornell with Cooperative Extension sites around the state and is considering curricular changes to ensure that every Cornell student receives instruction in the applicable use of technology.

### **To fortify Cornell’s long-term relationship with New York State and the State University of New York (SUNY)**

The university continues to work actively with members of the executive and legislative branches of state government and with the leadership of SUNY to ensure that Cornell is viewed as a full partner in the state’s higher education enterprise and is treated fairly in the apportionment of educational resources. The university has also launched a comprehensive review of its land-grant mission. Five panels have been established: two to assess cooperative extension programs and one each to assess the role of engineering outreach, technology transfer, and Cornell’s contributions to K-12 education.

### **To maintain broad student access to a Cornell education**

Cornell strives to ensure that eligible students have access to the university's programs. For fiscal year 2002-03 over \$160 million has been committed for financial aid and other assistance for students in Ithaca and at the Weill Medical College. At the undergraduate level, Cornell's admissions and financial-aid policies seek to ensure access without regard to ability to pay ("need-blind" admission), and Cornell continues to package financial aid to improve diversity and student quality.

### **To maintain Cornell's quality by encouraging sound resource management and carefully planned improvements**

Work on this objective is under way, with efforts to control general administrative costs and initiatives to modernize administrative systems, as previously noted. The university is also engaged in a broad and, perhaps, unprecedented assessment of the total nonacademic workforce in an effort to define roles and responsibilities more clearly, achieve substantial cost savings, and improve overall administrative efficiency and effectiveness.

### **MEDICAL COLLEGE**

In 1994, the Joan and Sanford I. Weill Cornell Medical College began a strategic planning process to review the major functions of the college: research, education, and clinical practice. The broad recommendations that resulted included curricular reform, research program expansion in selected areas, and expansion of ambulatory clinical care programs. The plan proposed greater integration of the clinical and basic sciences in the curriculum in order to stay at the forefront of medical and graduate biomedical sciences education, clinical medicine, and research. It identified the need for additional basic science faculty, expanded campus facilities to accommodate the plan's initiatives, and renovation of existing space. Essential to the plan's implementation was the identification of sufficient capital to support faculty recruitment, new program initiatives, and high technology equipment, as well as resources for the construction of new facilities and renovation of existing space. These broad initiatives required a staged and progressive planning process that continues today.

Phase I of the college's strategic plan began in 1994 with preparation for a new medical curricu-

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**"When completed, today's focused initiatives will have dramatically changed and enriched the academic and physical landscape of Cornell, in Ithaca and in New York City."**

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lum, which required a substantial investment in teaching facilities as well as educational staff infrastructure. The result was the creation of the Weill Education Center, with its auditorium and multiple teaching labs. The new curriculum, which was implemented in 1996 and continues to undergo evaluation and improvement, is known nationally for its excellence and attractiveness to applicants.

In 1996, the college developed the research component of its Phase I plan, which hinged on the completion of a \$200 million fund-raising campaign. The campaign, which reached its goal in 1999, underwrote the recruitment of thirty new research faculty, the addition of fourteen new research cores and services, the provision of new research space in the Whitney building (a converted wing of the former New York Hospital), the renovation of thousands of square feet of existing laboratory space, and the addition of more than 150 housing units with the construction of the Southtown residential building scheduled to open in 2003. The implementation of Phase I continues with the completion of the Citigroup Imaging Center, which opened in July, and progress in faculty recruitment, with nineteen of thirty targeted positions hired to-date. Seven new departmental chairs have been recruited in this time period as well.

Phase II of the Medical College's strategic planning effort began in 1999 and was formally entitled "Advancing the Clinical Mission." This very ambitious plan includes expansion or addition of thirty-seven clinical programs, including recruitment of sixty-two new clinical faculty, purchase of major clinical equipment, construction of a new 250,000-gross-square-foot building on the southwest corner of York Avenue and East 70th Street (currently in design), and renovation of over 30,000 square feet of existing clinical practice space. The plan includes a significant increase in endowment to support the academic efforts of clinical faculty in their early and mid-career years,





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

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As Harold Craft, Vice President for Administration and Chief Financial Officer stated, fiscal year 2002 proved Cornell remains a “healthy and vibrant university.” The report shows that we have maintained a foundation that supports the institutional strategic initiatives described by Vice President Craft. The following pages offer a closer look at Cornell’s administrative improvements, new regulations, and financial results of the past year.

### EFFICIENCY GAINS IN FINANCIAL PROCESSES

In Fall 2001, Cornell successfully outsourced the installment payment plan for student tuition payments. Customers now receive better service for the same costs as they would using our in-house service. Families are able to enroll on-line, access their accounts 24 hours per day, and receive monthly payment invoicing or automatic payment withdrawal.

In another important move, in spring 2002, the university partnered with a software vendor to implement “Net.Pay” bill presentment and payment, a one-time payment gateway and paper statement processing service for student bursar bills. This partnering eliminated the need for Cornell to purchase software and incur the associated maintenance costs. Net.Pay enables students, their families, or other payers to receive monthly statements over the web for their bursar accounts and to submit payments on line. The new service allows international students and their sponsors/families to view bills immediately on line instead of waiting for paper statements. Once enrolled, customers will no longer receive paper statements, reducing printing, processing, and mailing costs.

In last year’s report, it was announced that an on-line journal entry management system (JEMS) was developed and implemented. Since last year, we have continued to improve the system and have plans to upgrade this year with increased functional enhancements. We have expanded the type of entries that can be made using JEMS, with plans to add budget and commitment journals in fiscal year 2003.

Workflow enhancements continue to be a top priority with the implementation of the following new web-based processes this past year: purchasing system access requests, procurement card update requests, solicitation

requests, purchasing vendor forms, managing account creation, deletion, and access requests, payroll authorization forms, and bursar subcode request forms. In addition, we established on-line reports for all monthly financial statements, providing timely access to official financial information, eliminating the need for and effort involved in making paper copies.

In fiscal year 2003, we will deliver a set of web-enabled solutions for the accounting data warehouse authorization, invoice management and payment forms, and direct deposit for employee reimbursements. Work will continue over the next several years in the area of electronic processing via the web.

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“Workflow enhancements continue to be a top priority with the implementation of...new web-based processes this past year...”

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### GOVERNMENT REGULATIONS

This past year saw the passage of regulations to protect individuals. Two of the better-known pieces of legislation are the “Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act,” more commonly known as the USA-Patriot Act, and revisions to the “Health Insurance Portability and Accountability Act of 1996,” known as HIPAA. In addition, the first round of deadlines for the Public Law 106-107, “Federal Financial Assistance Management Improvement Act of 1999” took place in fiscal year 2002, including the establishment of a federal e-grants office.

As stated in the legislation, the USA-Patriot Act, signed into law on October 26, 2001, is enacted “to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and for other purposes.” For higher education, the impact of the USA-Patriot Act is derived from both the new law itself and the amendments to existing laws that it mandates, i.e., the Family Education Records Privacy Act of 1974

(FERPA), the Foreign Intelligence Surveillance Act of 1978 (FISA), and the Electronic Communications Privacy Act of 1986 (ECPA).

FERPA protects students' records from non-authorized disclosures. Title V, section 507 of the USA-Patriot Act amends FERPA by creating a new exception to the privacy protection's "emergency disclosure." The law now requires an educational institution to relinquish requested records, without a student's consent, to a U.S. assistant attorney general or similarly ranked official who obtains a court order relevant to a terrorist investigation. The other two amendments also involve approvals for disclosure. By and large, the USA-Patriot Act makes it easier for agents of the government to request certain kinds of information, which may increase the probability of those requests.

Another important change that came out of this new legislation is the "Standards for Privacy of Individually Identifiable Health Information" (the Privacy Rule), which took effect on April 14, 2001. The Privacy Rule creates national standards to protect individuals' personal health information, and gives patients increased access to their medical records. As required by HIPAA, the Privacy Rule covers health plans, health care clearinghouses, and those health care providers who conduct certain financial and administrative transactions electronically. Most covered entities are required to comply with the Privacy Rule by April 14, 2003. Cornell expects this ruling to have a significant impact at its medical college; there is a team currently working to address all issues and to position us to be compliant.

### **THE YEAR IN REVIEW**

Fiscal year 2001-02 was a year of contrasts, with bad news on both the national and institutional level in investment returns, and good news on the university's accomplishments and progress towards institutional priorities, even in such difficult times.

Cornell ended the fiscal year at June 30, 2002 with total assets of \$6.1 billion, total liabilities of \$1.1 billion, and net assets of \$5.0 billion. Total assets declined by \$147 million, or 2.3 percent, from the prior year. Total liabilities decreased by \$37 million, or 3.2 percent, from fiscal year 2000-01, and net assets fell by \$110 million, or 2.2 percent.

The most significant reduction in the university's assets was in investments, which declined by \$340 million from the prior year, primarily because of difficult market conditions. The year ending June 30, 2002 marked the second straight fiscal year that the university's Long Term Investment Pool (LTIP), which contains most of the endowment assets, had a

negative total return, down 7.7 percent. By contrast, in the 15 fiscal years prior to this two-year period, there was only one in which the LTIP had a negative return. The investment losses reflected the slowing growth of economies in the U.S. and overseas amid turmoil caused by the terrorist attack and a series of accounting-related scandals at major corporations. As in the prior year, the portions of the LTIP invested in fixed income and real estate assets had strong positive results, but our equity-oriented strategies suffered losses. The LTIP is a highly diversified investment vehicle, and, over full market cycles, should continue to produce significant growth in the university's financial assets. For the 5-year and 10-year periods ended June 30, 2002, the annualized gains on the LTIP are 6.2 percent and 10.7 percent, respectively.

At year-end, the market value per unit was \$44.95, down 13.3 percent from the prior-year unit value of \$51.85. The table below shows the value of the LTIP over the last ten years. The growth over that period, from \$25.36 to \$44.95 per share, represents an annual compound rate of 5.9 percent. This return is net of the distributions from the pool, which have averaged 4.1 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 23) explains this policy. In fiscal years 2001-02 and 2000-01, the payout rates were \$2.70 and \$2.30 per share, respectively. These rates resulted in distributions of \$160.5 million and \$131.8 million, for fiscal years 2001-02 and 2000-01, respectively. The dividend for 2001-02 was 6.0 percent of the unit share value at year-end and 5.1 percent of the average unit share value for the 12 quarters ending June 30, 2001. The sources of the payout for fiscal year 2001-02 were \$48.9 million

### **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

in net investment income and \$111.6 million in capital appreciation, all of which came from accumulated gains of prior years. Equivalent amounts for fiscal year 2000–01 were \$49.3 million from investment income and \$82.5 million, of which \$24.1 million came from previously accumulated gains. Therefore, the savings from the years in which we enjoyed positive double-digit returns sustained us during the past two years, allowing withdrawals of \$135.7 million in gains to meet current-year program needs. The payout rate for fiscal year 2002-03 is also set at \$2.70 per share.

Table 2, on page 21, shows the value of Cornell’s endowment based on Generally Accepted Accounting Principles. As indicated on the table’s subtotal line 4, “Total university endowment” is \$2.920 billion and corresponds to the numbers in the net-assets section of the *Statements of Financial Position* (page 15). Purists would probably remove the \$66 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 \$2.854 billion, calculated in this way (net of \$66 million contributions receivable). Total endowment assets managed by the university are \$3.122 billion (cash and investments), of which \$267 million are held for other entities.

Contributions receivable increased \$83 million, or 21.7 percent, from \$385 million at June 30, 2001 to \$468 million at June 30, 2002, a high since 1996, when SFAS 116 *Accounting for Contributions Received and Contributions Made* required that pledges be recorded as assets. These numbers represent the present value of the unconditional promises to donate to the university in the future.

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“The university has long been a recipient of large commitments to give, and this year is no exception, with substantial new commitments as a result of the Medical College campaign.”

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As mentioned in last year’s report, one of the unintended consequences of SFAS 116 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, and this year is no exception, with substantial new commitments as a result of the Medical College campaign. 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. Table 5 in the notes (page 25) shows the anticipated payment schedule of the receivables at June 30, 2002, and June 30, 2001. Payments received on existing pledges during fiscal year 2001-02 totaled \$107 million.

Student loans receivable decreased slightly from \$75 million at June 30, 2001 to \$73 million at the end of 2002. Cornell has an excellent loan collection experience. For the fiscal year ending June 30,

1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
\$ 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	\$3,043.9
61.0	56.1	50.6	59.2	77.4	72.8	98.9	147.8	146.4	135.4	132.5
( 2.5)	( 28.2)	( 2.6)	( 8.7)	( 23.2)	( 25.9)	( 32.1)	( 40.5)	( 55.5)	( 84.6)	( 110.5)
90.5	123.1	( 13.3)	160.5	270.0	248.1	317.4	225.4	436.8	( 294.9)	( 315.5)
<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>\$2,750.4</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>	<u>\$ 44.95</u>

2002, our Perkins Cohort loan default rate was 2.1 percent compared with the national rate as of June 30, 1999 of 10.0 percent (the most current rate available). Similarly, our Cohort default rate on the Federal Direct Lending Program was 1.3 percent for fiscal year 1999-00, versus the national rate of 5.6 percent for fiscal year 1998-99.

The value of land, buildings, and equipment increased by \$60 million from \$1.452 billion to \$1.512 billion, or 4.1 percent. Projects completed during the year were primarily those related to the North Campus Residential Initiative. Construction in progress at June 30, 2002 included Duffield Hall, renovations to White Hall, additions to the Baker Research Institute, and the new Laboratory of Ornithology building.

The largest component of the university's liabilities is bonds, mortgages, and notes payable, which totaled \$519 million at June 30, 2002, decreasing by \$14 million, or 2.6 percent, from the June 30, 2001 balance. The decrease is primarily a result of regularly scheduled principal payments. Other debt activity included two refinancings issued through the Tompkins County Industrial Development Agency in February 2002. The first, for \$43 million, was to advance refund \$40 million of the 2000 IDA bonds. The proceeds have been placed in escrow and will be used to pay the bondholders until the debt is called in 2010. The arrangement relieves the university of all liability for the bonds, and as such, that portion of the 2000 IDA debt and the escrow account have been removed from the *Statements of Financial Position*. The second issuance, in the amount of \$15.4 million, was used to call the 1986 Dormitory Authority revenue bonds. The two refinancings resulted in a present value savings of approximately \$3.5 million. The university's ratings of AA+ (Standard & Poors) and Aa1 (Moody's Investors Service) were reconfirmed in February 2002.

Other decreases in liabilities included reductions in "Funds held in trust for others" and "Obligations under living trust agreements" in the amounts of \$30 million and \$24 million, respectively. These decreases are a result of the decline in market value of the underlying investments that the university holds on behalf of outside groups.

Information detailing the decline in net assets of \$110 million for fiscal year 2001-02, and \$159 million for fiscal year 2000-01, is shown in the *Statement of Activities* and is also summarized in Table 1 of the *Notes to the Financial Statements* (page 20).

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*"In summary, you could say it was a year of 'rainy days,' for which the university had saved funds during more prosperous years."*

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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 \$25 million. This increase represents 1.5 percent of unrestricted general operations sources of \$1.666 billion (after transfers out of \$93 million for capital investment in physical and financial capital). There was a \$46 million jump in restricted net assets used for general operations, essentially the result of large new contributions receivable recorded this 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 2001-02. The year's activity resulted in gross additions of \$224 million, primarily capital investments in new buildings, equipment, and principal payments on outstanding debt. Deductions for depreciation and disposals were \$136 million. Therefore, the net increase for physical capital was \$88 million.

Net assets in financial capital fell \$270 million, the result of negative investment returns. Realized losses were \$114 million, and unrealized losses \$208 million. In addition, \$112 million in prior year's accumulated appreciation was withdrawn from unrestricted net assets to meet the LTIP dividend of \$2.70 per share. Contributions of \$121 million, (both direct payments and pledges receivable) helped to minimize the overall reduction in financial capital resulting from the negative investment performance.

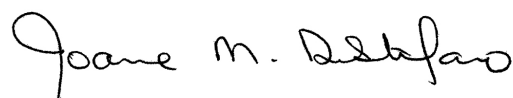
Total revenue grew by \$210 million, or 14 percent, from the prior year—from \$1.456 billion in fiscal year 2000-01 to \$1.666 billion for fiscal year 2001-02. The largest single gain was in contributions of \$165 million over the prior-year amount of \$273 million, or more than 60%. This is the other side of the phenomenon described above, where revenue is recorded when a commitment is made, causing large variances in revenue from

one year to the next. These pledges are expected to be paid over a number of years, so the addition to net assets is an anticipation of cash to be received in the future. Federal grants and contracts went from \$298 million to \$330 million, an increase of \$32 million or 11 percent. Sponsors continue to show their support for Cornell's research initiatives, with increases in federal funds from both the National Institutes of Health and the U.S. Department of Agriculture. Revenue gains were also posted in the Medical Physicians' Organization (\$23 million, 8.9 percent), and net tuition and fees (\$14 million, 4.5 percent).

There was significant growth in expenses from the prior year, in the amount of \$161 million or 9.9 percent, from \$1.615 billion to \$1.776 billion. Salaries and wages increased by \$85 million, or 10.3 percent, largely due to activities related to research awards, the Medical College Physicians' Organization, and the increase in faculty salaries. Employee benefit expenses also grew, (\$28 million or 16.8 percent) due to the higher salaries and a \$10 million accrual for unfunded post-retirement benefits based on higher health care cost trend rates. Table 11 of the financial statements, on page 31, shows expenses by functional category, reflecting the increases in compensation expense within the research and medical services functions.

Turning to the statement of cash flows, the university's cash and cash equivalents rose \$39 million during the year, due to the amount of working capital held in cash and cash equivalents on June 30, 2002, because money market funds were providing the best yield for short-term assets. Net cash provided by operating activities was \$85 million and net cash provided by financing activities was \$149 million. Investing activities "used" \$195 million, to achieve the goal of being as fully invested as possible. These figures indicate a pattern somewhat similar to the prior year, in which \$109 million was generated from operating activities, \$106 million was added from financing activities, and \$94 million was used for investing activities.

In summary, you could say it was a year of "rainy days," for which the university had saved funds during more prosperous years. We benefited by having a sufficient depth of reserves this year to accomplish university priorities, and our benefactors have pledged their future support to sustain the institution's quality of instructional programs, research initiatives, and public service objectives.



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

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**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, 2002, 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 2001 financial statements and, in our report dated September 5, 2001, 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, 2002, 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.

**KPMG LLP**

September 10, 2002  
Rochester, New York

**STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2002 AND 2001 (IN THOUSANDS)**

	General Operations	Physical Capital	Financial Capital	2002 Total	2001 Total
<b>Assets</b>					
1 Cash and cash equivalents (note 2)	\$ 49,074	\$ 41,365	\$ 103,582	\$ 194,021	\$ 155,295
2 Investments (note 2)	406,834	124,431	3,018,499	3,549,764	3,890,110
3 Accounts receivable, net (note 3)					
4 Government	43,925			43,925	39,159
5 Patients	60,035			60,035	64,485
6 Contributions	250,850	150,958	66,412	468,220	384,808
7 Other	75,693	5,030	2,645	83,368	75,077
8 Inventories and deferred charges	32,243	5,200		37,443	42,352
9 Student loans receivable (note 3C)	54,790		18,208	72,998	75,411
10 Land, buildings, and equipment, net of accumulated depreciation (note 5)		1,512,469		1,512,469	1,452,351
11 Funds held in trust by others (note 1D)			92,681	92,681	82,876
12 Advances for capital investment	25,052	( 25,052 )			
13 Total assets	<u>\$ 998,496</u>	<u>\$1,814,401</u>	<u>\$3,302,027</u>	<u>\$6,114,924</u>	<u>\$6,261,924</u>
<b>Liabilities</b>					
14 Accounts payable and accrued expenses	\$ 148,080	\$ 11,300		\$ 159,380	\$ 150,996
15 Deposits and deferred revenues	35,966		\$ 86,599	122,565	110,814
16 Deferred benefits (note 7)	89,929		40,045	129,974	120,077
17 Funds held in trust for others (note 1E)			74,165	74,165	103,916
18 Obligations under living trust agreements (note 1C)			66,449	66,449	90,553
19 Bonds, mortgages, & notes payable (note 6)	22,160	496,488		518,648	532,601
20 Refundable government grants	43,518			43,518	42,474
21 Total liabilities	<u>339,653</u>	<u>507,788</u>	<u>267,258</u>	<u>1,114,699</u>	<u>1,151,431</u>
<b>Net Assets (note 1B)</b>					
<b>22 Unrestricted</b>					
23 Available for operations	292,438			292,438	267,005
24 Designated for student loans	4,822			4,822	5,025
25 Designated for plant		165,986		165,986	154,710
26 Net investment in plant		923,075		923,075	872,258
27 Appreciation on true endowments			970,199	970,199	1,249,223
28 Funds functioning as endowments			724,311	724,311	840,999
<b>29 Temporarily restricted</b>					
30 Available for operations	361,583			361,583	315,594
31 Designated for plant		217,552		217,552	190,957
32 Funds functioning as endowments			67,197	67,197	64,514
33 Funds subject to living trust agreements			51,281	51,281	41,067
34 Funds held in trust			33,570	33,570	31,296
<b>35 Permanently restricted</b>					
36 Student loan funds			28,545	28,545	24,916
37 True endowments			1,024,567	1,024,567	938,841
38 Funds subject to living trust agreements			34,789	34,789	28,591
39 Funds held in trust			100,310	100,310	85,497
40 Total net assets	<u>658,843</u>	<u>1,306,613</u>	<u>3,034,769</u>	<u>5,000,225</u>	<u>5,110,493</u>
41 Total liabilities and net assets	<u>\$ 998,496</u>	<u>\$1,814,401</u>	<u>\$3,302,027</u>	<u>\$6,114,924</u>	<u>\$6,261,924</u>

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

**STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)**

(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2001)

	General Operations		Physical Capital		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted
<b>Revenues and other additions</b>					
1 Tuition and fees	\$ 462,830				
2 Scholarship allowance	( 133,166 )				
3 Net tuition and fees	329,664				
4 State appropriations	151,857		\$ 14,000		
5 Federal appropriations	19,495				
6 Federal grants and contracts	329,884				
7 State and local grants and contracts	22,560				
8 Private grants and contracts	33,976				
9 Contributions	123,414	\$ 128,608	5,829	\$ 58,761	\$ 21,599
10 Interest and dividends	44,066	3,929	5,470	2,208	22,991
11 Net realized gain (loss) on investments	627			3,647	( 112,037 )
12 Net unrealized gain (loss) on investments	( 7,994 )		( 8,600 )		( 207,056 )
13 Medical Physicians' Organization	283,090				
14 Enterprises and subsidiaries	137,075				
15 Educational departments	59,692		4		
16 Other sources	45,491	1,588	( 4,261 )	4,602	748
17 Total revenues	1,572,897	134,125	12,442	69,218	( 273,755 )
18 Investment payout	117,202	22,658	102		( 117,304 )
19 Net assets released from restrictions	68,520	( 68,520 )	11,663	( 11,663 )	
20 Capital investments (withdrawals)	( 92,809 )	( 42,274 )	173,680	( 30,960 )	( 4,653 )
21 Total revenues and other additions	1,665,810	45,989	197,887	26,595	( 395,712 )
<b>Expenses (Note 8)</b>					
22 Salaries and wages	906,138				
23 Employee benefits	192,029				
24 Purchased services	103,845				
25 Supplies and general	326,907				
26 Utilities, rents, and taxes	88,573				
27 Interest expense	23,088				
28 Depreciation			120,329		
29 Other			15,465		
30 Total expenses	1,640,580		135,794		
31 Change in net assets	25,230	45,989	62,093	26,595	( 395,712 )
32 Total net assets, beginning of year	272,030	315,594	1,026,968	190,957	2,090,222
33 Total net assets, end of year	\$ 297,260	\$ 361,583	\$1,089,061	\$ 217,552	\$1,694,510

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



Financial Capital

Temporarily Restricted	Permanently Restricted	2002 Total	2001 Total	
		\$ 462,830	\$ 435,434	1
		( 133,166 )	( 119,880 )	2
		329,664	315,554	3
		165,857	160,114	4
		19,495	19,637	5
		329,884	297,556	6
		22,560	21,850	7
		33,976	23,691	8
\$ 13,053	\$ 86,109	437,373	272,681	9
24,797	15,604	119,065	113,764	10
( 602 )	( 1,166 )	( 109,531 )	69,263	11
( 586 )	14	( 224,222 )	( 323,942 )	12
		283,090	259,991	13
		137,075	123,610	14
		59,696	58,666	15
<u>7,107</u>	<u>6,849</u>	<u>62,124</u>	<u>43,915</u>	16
43,769	107,410	1,666,106	1,456,350	17
( 22,658 )				18
				19
( <u>5,940</u> )	<u>2,956</u>			20
<u>15,171</u>	<u>110,366</u>	<u>1,666,106</u>	<u>1,456,350</u>	21
		906,138	821,159	22
		192,029	164,448	23
		103,845	94,849	24
		326,907	298,990	25
		88,573	86,726	26
		23,088	27,629	27
		120,329	115,861	28
		<u>15,465</u>	<u>6,025</u>	29
		<u>1,776,374</u>	<u>1,615,687</u>	30
15,171	110,366	( 110,268 )	( 159,337 )	31
<u>136,877</u>	<u>1,077,845</u>	<u>5,110,493</u>	<u>5,269,830</u>	32
<u>\$ 152,048</u>	<u>\$1,188,211</u>	<u>\$5,000,225</u>	<u>\$5,110,493</u>	33

**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2002 AND 2001 (IN THOUSANDS)**

	<b>2002</b>	<b>2001</b>
<b>Cash flows from operating activities</b>		
1 Increase/(decrease) in net assets	(\$ 110,268 )	(\$ 159,337 )
2 Adjustments to reconcile change in net assets to net cash provided by operating activities		
3 <b>Nonoperating items</b>		
4 Contributions for physical and financial capital	( 184,085 )	( 119,878 )
5 Net realized (gains)/losses on investments	109,531	( 69,263 )
6 Income restricted for financial capital	( 22,453 )	( 4,037 )
7 <b>Noncash items</b>		
8 Depreciation	120,329	115,861
9 Net unrealized (gains)/losses on investments	224,222	323,942
10 Loss on equipment disposals	9,853	3,657
11 Provision for receivable allowances	21,422	7,940
12 Accretion of bond discount	914	862
13 Other noncash items	1,167	( 1,680 )
14 <b>Change in assets and liabilities</b>		
15 Accounts receivable	( 113,206 )	2,975
16 Inventories and deferred charges	3,750	( 1,784 )
17 Accounts payable and accrued expenses	8,384	25,211
18 Deposits and deferred revenues	4,801	( 7,642 )
19 Deferred benefits	9,897	( 9,100 )
20 Refundable government grants	1,044	1,568
21 Net cash provided by operating activities	<u>85,302</u>	<u>109,295</u>
 <b>Cash flows from investing activities</b>		
22 Proceeds from the sale of investments	3,635,651	4,675,300
23 Purchase of investments	( 3,629,058 )	( 4,670,845 )
24 Change in collateral received from securities lending activities (net)	6,950	79,649
25 Acquisition of land, buildings, and equipment (net)	( 180,892 )	( 175,798 )
26 Student loans granted	( 11,596 )	( 9,114 )
27 Student loans repaid	13,766	12,119
28 Change in funds held in trust for others	( 29,751 )	( 5,693 )
29 Net cash used by investing activities	<u>( 194,930 )</u>	<u>( 94,382 )</u>
 <b>Cash flow from financing activities</b>		
30 <b>Resources for long-term purposes</b>		
31 Contributions restricted to		
32 Investment in true endowment	84,642	57,240
33 Investment in physical capital	54,507	10,438
34 Investment subject to living trust agreements	7,246	7,406
35 Income restricted for financial capital	22,453	4,037
36 Contributions designated for funds functioning as endowments	28,282	27,555
37 <b>Other financing activities</b>		
38 Principal payments of bonds, mortgages, and notes payable	( 90,597 )	( 29,084 )
39 Proceeds from issuance of bonds, mortgages, and notes payable	75,730	42,800
40 Change in obligations under living trust agreements	( 33,909 )	( 14,698 )
41 Net cash provided by financing activities	<u>148,354</u>	<u>105,694</u>
42 Net change in cash and cash equivalents	38,726	120,607
43 Cash and cash equivalents, beginning of year	155,295	34,688
44 Cash and cash equivalents, end of year	<u>\$ 194,021</u>	<u>\$ 155,295</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 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, 2002 and June 30, 2001.

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, 2002 and also on June 30, 2001, the university's true endowment net assets consisted of approximately 15 percent for unrestricted purposes, 21 percent for student aid, 42 percent for instruction, and 22 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
<sup>1</sup> Net assets at June 30, 2000	\$3,659,423	\$ 606,070	\$1,004,337	\$5,269,830
<b>2001 change in net assets:</b>				
<sup>2</sup> General operations	22,358	10,742		33,100
<sup>3</sup> Physical capital	10,980	10,606		21,586
<sup>4</sup> Financial capital	( 303,541 )	16,010	73,508	( 214,023 )
<sup>5</sup> Total change in net assets	( 270,203 )	37,358	73,508	( 159,337 )
<sup>6</sup> Net assets at June 30, 2001	\$3,389,220	\$ 643,428	\$1,077,845	\$5,110,493
<b>2002 change in net assets:</b>				
<sup>7</sup> General operations	25,230	45,989		71,219
<sup>8</sup> Physical capital	62,093	26,595		88,688
<sup>9</sup> Financial capital	( 395,712 )	15,171	110,366	( 270,175 )
<sup>10</sup> Total change in net assets	( 308,389 )	87,755	110,366	( 110,268 )
<sup>11</sup> Net assets at June 30, 2002	\$3,080,831	\$ 731,183	\$1,188,211	\$5,000,225

**TABLE 2. COMPOSITION OF FINANCIAL CAPITAL NET ASSETS AT JUNE 30, 2002 (IN THOUSANDS)**  
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2001)

	Net Asset Classification			2002	2001
	Unrestricted	Temporarily Restricted	Permanently Restricted		
1 True endowment and unspent earnings, including contributions receivable of \$66,412	\$ 970,199		\$1,024,567	\$1,994,766	\$2,188,064
2 Functioning as endowment	724,311	\$ 67,197		791,508	905,513
3 Funds held in trust		33,570	100,310	133,880	116,793
4 Total university endowment	1,694,510	100,767	1,124,877	2,920,154	3,210,370
5 Living trust funds		51,281	34,789	86,070	69,658
6 Loan funds			28,545	28,545	24,916
7 Total	<u>\$1,694,510</u>	<u>\$ 152,048</u>	<u>\$1,188,211</u>	<u>\$3,034,769</u>	<u>\$3,304,944</u>

#### D. Funds Held in Trust by Others

*Funds held in trust by others* represent resources neither in the possession nor 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 2001-02 and 2000-01 were \$7,299,457 and \$9,448,082, 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, is one of those organizations, with assets having a market value of \$75,575,880, and \$86,792,335 at June 30, 2002 and June 30, 2001, respectively. Of these investments, a portion of the future income stream has been directed in perpetuity to benefit the Medical College. As such, the present value of the income stream, calculated to be \$41,199,000 and \$33,916,000 at June 30, 2002 and June 30, 2001, 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 capital assets in the *Statements of Financial Position*. Gifts of collection items are recorded as increases in net assets in the year in which the items are acquired.

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

	2002	2001
<sup>1</sup> Cash and cash equivalent holdings	\$ 78,421	(\$ 13,610)
<b>Equity Securities</b>		
<sup>2</sup> Domestic	1,337,219	1,408,339
<sup>3</sup> International	201,243	238,139
<b>Debt Securities</b>		
<sup>4</sup> Domestic - government	389,836	503,604
<sup>5</sup> Domestic - corporate debt securities	355,138	415,223
<sup>6</sup> International - governments	44,163	28,248
<sup>7</sup> International - corporate	67,451	58,417
<sup>8</sup> Mortgages and other asset-backed securities	156,169	195,821
<b>Other Investments</b>		
<sup>9</sup> Limited partnerships	860,440	978,262
<sup>10</sup> Real Estate	24,510	38,050
<sup>11</sup> Other	35,174	39,617
<sup>12</sup> Total Investments	<u>\$3,549,764</u>	<u>\$3,890,110</u>

**H. Derivative Instruments and Hedging Activities**

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 those derivatives is included in the *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 and accrued expenses* on the *Statements of Financial Position*. The change in the fair value of the derivative instruments is also included in the *Net unrealized gain (loss) on investments* in the *Statement of Activities*, in the Physical Capital category.

**I. 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.

**J. 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, 2001, from which the summarized information was derived.

**K. Reclassifications**

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

**L. Income Taxes**

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

## 2. 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 2001-02 and 2000-01 for investing the university's portfolios amounted to approximately \$6,900,000 and \$7,800,000, respectively. The composition of investments at June 30, 2002 and June 30, 2001 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.

The pool is divided into units that represent ownership. These units are determined based on the date of purchase and market value per unit. At June 30, 2002 and June 30, 2001, the market prices per unit were \$44.95 and \$51.85, respectively.

The Long-term investment pool was invested, as of June 30, 2002, as a balanced fund consisting of 57 percent marketable-equity securities, 12 percent real estate and private-equity investments, and 31 percent bonds and fixed-income investments. At June 30, 2001, the pool consisted of 65 percent marketable-equity securities, 12 percent real estate and private-equity investments, and 23 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.

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

	2002	2001
<sup>1</sup> Working capital	\$ 1,531	\$ 11,501
<sup>2</sup> Intermediate-term (resources for spending in less than 3 years)	418,228	374,675
<sup>3</sup> Long-term investment pool (resources held for 3 years or longer)	2,750,401	3,043,876
<sup>4</sup> Separately invested securities	287,843	308,134
<sup>5</sup> Life income fund pools	21,435	20,698
<sup>6</sup> DASNY holdings	66,585	79,714
<sup>7</sup> Other purposes of investment	3,741	51,512
<sup>8</sup> Total Investments	<u>\$3,549,764</u>	<u>\$3,890,110</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
<b>Long-Term Investment Pool</b>					
1 End of year	\$2,750,401	\$2,604,569	\$ 145,832	\$44.95	61,184,733
2 Beginning of year	\$3,043,876	\$2,717,022	326,854	\$51.85	58,710,052
3 Unrealized net gain/(loss) for year			( 181,022 )		
4 Change in interest receivable for year			( 514 )		
5 Realized net gain/(loss) for year			( 133,922 )		
6 Net gain/(loss) for year			<u>(\$ 315,458 )</u>		

The university has a total return policy. Under this policy, a distribution is provided from the pool that is independent of the cash yield and investment changes occurring in a given year. This insulates investment policy from budgetary pressures, and insulates the distribution from fluctuations in capital markets. The total return of the Long-term investment pool was a loss of \$248,060,725 (-7.70 percent) for fiscal year 2001-02. The total return consisted of \$67,397,663 (2.09 percent) of income and \$315,458,388 (-9.79 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 over time a sufficient portion of the return is reinvested to maintain the purchasing power of the endowment, and to provide reasonable growth in support of program budgets.

For the year ended June 30, 2002, distributions for investment payout were \$160,549,571 (\$2.70 per unit), of which \$139,962,609 supported general operations and physical capital. The remaining distribution of \$20,586,962 was returned to principal, or went to funds held in trust for others, shown in the accompanying *Statements of Financial Position*. The distribution for 2002 was comprised of \$48,908,006 in net investment income and \$111,641,565 paid from prior year accumulated gains. For the fiscal year ended June 30, 2001, the investment payout was \$131,798,481 (\$2.30 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's accumulated gains.

*Separately invested securities* 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.

*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, 2002 and June 30, 2001, the university had commitments of approximately \$394,147,000 and \$409,781,000, 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 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

Investment securities having a fair value of \$82,780,566 and \$77,334,071 at June 30, 2002 and June 30, 2001, respectively, were lent to various brokerage firms. The loaned securities are returnable on demand and are collateralized by cash deposits. The university has recorded the fair value of the collateral received of \$86,598,488 and \$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 *Statements of Financial Position* at June 30, 2002 and June 30, 2001, respectively. The collateral is invested in short-term securities and income earned is credited as additional income to the investment pools.

### 3. ACCOUNTS AND LOANS RECEIVABLE

#### A. Patient Accounts and Other

Patient accounts receivable at June 30, 2002 and June 30, 2001, are net of provisions for allowances and doubtful accounts of \$60,257,246 and \$52,686,282, respectively. Other accounts receivable, including student accounts, at June 30, 2002 and June 30, 2001 are net of allowances for doubtful accounts of \$1,565,779 and \$1,265,228, 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 \$468,220,000 and \$384,808,000, representing the present value of future cash flows, are recorded as receivables at June 30, 2002 and June 30, 2001, respectively. The corresponding revenue is assigned to the appropriate net asset category in the year the promise is received. The face value, discount (7.00 percent and 7.25 percent for fiscal years 2001-02 and 2000-01, respectively), and allowance for contributions receivable are shown in Table 5. Conditional promises are recorded when donor stipulations are substantially met. At June 30, 2002 and 2001, conditional promises and donor intentions not reflected in the financial statements were approximately \$107,042,000 and \$114,273,000, respectively. Expenses related to fund-raising activities amounted to approximately \$21,425,000 and \$18,448,000 for fiscal years 2001-02 and 2000-01, respectively.

#### C. Student Loans

Student loans receivable at June 30, 2002 and June 30, 2001, are reported net of allowances for doubtful loans of \$7,332,306 and \$7,239,645, 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)

	2002	2001
<b>Contributions expected to be realized</b>		
<sup>1</sup> In one year or less	\$ 111,432	\$ 97,327
<sup>2</sup> Between one year and five years	393,747	289,939
<sup>3</sup> More than five years	<u>131,075</u>	<u>145,235</u>
<sup>4</sup> Gross contributions receivable	636,254	532,501
<sup>5</sup> Discount	( 143,391 )	( 127,440 )
<sup>6</sup> Allowance	( <u>24,643</u> )	( <u>20,253</u> )
<sup>7</sup> Total discount and allowance	( <u>168,034</u> )	( <u>147,693</u> )
<sup>8</sup> Net contributions receivable	<u>\$ 468,220</u>	<u>\$ 384,808</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: \$10,256,099 and \$11,909,880 at June 30, 2002 and June 30, 2001, of financial capital; and \$1,079,935 and \$1,113,450, 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 at both June 30, 2002 and June 30, 2001.

Physical capital assets include cash and United States government obligations of \$26,854,200, and \$24,591,446 at June 30, 2002 and June 30, 2001, respectively, held by DASNY, that will be used primarily for the retirement of debt at a future time. In addition, \$36,436,510 and \$51,699,904 of bond proceeds were on deposit for future project expenditures at June 30, 2002 and 2001, respectively.

Student loan assets in general operations include \$3,294,315 and \$3,422,286 at June 30, 2002 and June 30, 2001, 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 \$9,408,000 and \$8,127,000 for fiscal years 2001-02 and 2000-01, 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 \$0 and \$3,565,000 at June 30, 2002 and June 30, 2001, respectively, that are leased from DASNY, the titles to which passed to the university upon retirement of related indebtedness (see note 6); (2) land, buildings, and equipment of the contract colleges aggregating \$300,545,000 and \$289,195,000 at June 30, 2002 and June 30, 2001, 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 \$25,652,000 and \$27,172,000 at June 30, 2002 and June 30, 2001, respectively.

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

	Book value at June 30, 2001	Additions	Disposals and Closed Projects	Book value at June 30, 2002
<sup>1</sup> Land, buildings, and improvements	\$1,585,938	\$ 127,100	\$ 12,858	\$1,700,180
<sup>2</sup> Furniture, equipment, and books	827,166	86,065	54,340	858,891
<sup>3</sup> Construction in progress	167,738	91,954	122,400	137,292
<sup>4</sup> Total before accumulated depreciation	2,580,842	\$ 305,119	\$ 189,598	2,696,363
<sup>5</sup> Accumulated depreciation	( 1,128,491 )			( 1,183,894 )
<sup>6</sup> Land, buildings and equipment, net	<u>\$1,452,351</u>			<u>\$1,512,469</u>

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

	Balance June 30, 2002	Balance June 30, 2001	Interest Rates	Maturity Date	
<b>Plant Funds</b>					
1	Dormitory Authority of the State of New York (DASNY)				
2	Revenue Bond Series				
3	1986	\$ 0	\$ 18,335	5.00	2002
4	1990B	59,300	59,600	1.16 to 2.35*	2025
5	1993	1,895	9,990	4.80 to 5.10	2005
6	1996	101,215	110,810	4.75 to 5.40	2014
7	2000A	65,905	67,250	.90 to 2.75*	2029
8	2000B	85,240	86,715	.90 to 2.75*	2030
9	Bond Series 1987B	16,065	16,885	11.11	2012
10	DASNY 1993 Pooled Loan Program	1,828	1,951	2.04 to 4.20*	2012
11	Commercial Paper	68,760	52,100	1.25 to 3.05*	2018
12	Industrial Development Agency				
13	2000	8,695	49,275	4.60 to 5.25	2030
14	2002A	43,225	0	1.00 to 1.60*	2030
15	2002B	15,390	0	1.00 to 1.60*	2015
16	Student Loan Marketing Association	6,665	6,885	5.75 to 6.50	2019
17	Urban Development Corporation	3,375	3,500	zero	2029
18	Capitalized Leases	13,600	13,950	various	2020
19	Private Foundation Line of Credit	5,000	10,000	zero	2003
20	Other	330	361	various	2004
21	Total Physical Capital	<u>496,488</u>	<u>507,607</u>		
<b>Student Loan Funds</b>					
22	DASNY Bond 1992 Serial	\$ 0	\$ 1,305	6.20 to 6.30	2002
23	DASNY Bond 1992 Capital Appreciation	5,129	4,801	6.60 to 6.80	2009
24	DASNY Bond 1993 Serial	755	1,475	4.80 to 4.90	2003
25	DASNY Bond 1993 Capital Appreciation	2,929	2,778	5.25 to 5.50	2007
26	DASNY Bond 1995 Serial	5,695	7,415	5.10 to 5.45	2005
27	DASNY Bond 1995 Capital Appreciation	7,652	7,220	5.70 to 6.15	2011
28	Total General Operations—Student Loans	<u>22,160</u>	<u>24,994</u>		
29	Total Bonds, Mortgages, and Notes Payable	<u>\$ 518,648</u>	<u>\$ 532,601</u>		

\* Rates presented are the actual rates paid during fiscal year 2001-02. 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, 2002 and June 30, 2001, 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 2001-02 and 2000-01 was approximately \$22,174,000 and \$26,767,000, 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 compliance with an asset-to-liability ratio and an unencumbered securities to operating expense ratio.

The fair value of the university's bonds, mortgages, and notes payable is approximately \$528,875,000 and \$541,427,000 at June 30, 2002 and June 30, 2001, 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 2003	\$ 24,967	\$ 23,317	\$ 48,284
2 2004	20,087	22,578	42,665
3 2005	20,168	21,692	41,860
4 2006	18,912	21,102	40,014
5 2007	18,825	20,321	39,146
6 Thereafter	415,689	200,465	616,154
7 Total	\$ <u>518,648</u>	\$ <u>309,475</u>	\$ <u>828,123</u>

In February 2002, the university issued \$43,255,000 of variable rate revenue bonds through the Tompkins County Industrial Development Agency (IDA) to advance refund \$39,820,000 of the 2000 IDA bonds. In addition, the university called \$15,390,000 of the 1986 Dormitory Authority bonds and refinanced them with variable rate revenue bonds, also issued through the IDA.

The university has interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under these arrangements, the counter party pays the university a variable interest rate equal to the BMA index. The university will pay the counter party a fixed interest rate of 4.62% on a notional amount of \$87,200,000; 2.99% on a notional amount of \$85,240,000; 4.52% on a notional amount of \$43,555,000; and 4.33% on a notional amount of \$15,390,000. Net payments or receipts under the swap agreement are recorded as an adjustment to interest expense. The contractual relationship under these agreements will last until July 1, 2030.

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 refinance 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 *Statements of Financial Position* at June 30, 2002, 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, 2002 and June 30, 2001, amounted to \$47,121,663 and \$43,674,080, respectively.

Employees of the contract colleges are covered under the New York State pension plan. Contributions to the state retirement system and other employee 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 employee benefit costs on certain salaries, principally those associated with externally sponsored programs. The amount reimbursed to the state during the years ended June 30,

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

	<b>2002</b>			<b>2001</b>
	Endowed Ithaca*	Medical College	Combined	Combined
<b>Change in benefit obligation</b>				
1 Benefit obligation at beginning of year	\$ 20,507	\$ 30,444	\$ 50,951	\$ 48,646
2 Service costs (benefits earned during the period)	1	1,653	1,654	1,583
3 Interest cost on projected benefit obligation	1,398	2,028	3,426	3,424
4 Actuarial (gain) loss	193	( 1,398 )	( 1,205 )	1,478
5 Benefits paid	( 2,067 )	( 2,469 )	( 4,536 )	( 4,180 )
6 Benefit obligation at end of year	<u>20,032</u>	<u>30,258</u>	<u>50,290</u>	<u>50,951</u>
<b>Change in plan assets</b>				
7 Fair value of plan assets at beginning of year	33,842	36,437	70,279	78,539
8 Return on plan assets	( 2,977 )	( 2,789 )	( 5,766 )	( 4,080 )
9 Benefits paid	( 2,067 )	( 2,469 )	( 4,536 )	( 4,180 )
10 Fair value of plan assets at end of year	<u>28,798</u>	<u>31,179</u>	<u>59,977</u>	<u>70,279</u>
11 Excess of plan assets over projected benefit obligation	8,766	921	9,687	19,328
12 Unrecognized net obligation (asset) at July 1, 1987, recognized over fifteen years				207
13 Unrecognized prior service costs		115	115	223
14 Unrecognized net loss (gain) from past experience different than assumed	5,843	903	6,746	( 3,986 )
15 Prepaid pension cost	<u>\$ 14,609</u>	<u>\$ 1,939</u>	<u>\$ 16,548</u>	<u>\$ 15,772</u>
<b>Net periodic pension cost components</b>				
16 Prepaid service cost	\$ 1	\$ 1,653	\$ 1,654	\$ 1,583
17 Interest cost on projected benefit obligation	1,399	2,028	3,427	3,424
18 Actual return on plan assets (gain)/loss	2,977	2,789	5,766	4,080
19 <b>Net amortization and deferral of</b>				
20 Initial transition obligation	298	( 92 )	206	207
21 Prior service cost		108	108	108
22 Net (gain) loss		( 154 )	( 154 )	( 816 )
23 Return on plan assets different from expected	( 5,932 )	( 5,851 )	( 11,783 )	( 10,853 )
24 Net periodic pension cost (income)	<u>(\$ 1,257 )</u>	<u>\$ 481</u>	<u>(\$ 776 )</u>	<u>(\$ 2,267 )</u>
			<b>2002</b>	<b>2001</b>
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
<b>Assumptions used in accounting for the plans as of June 30</b>				
25 Discount rate	7.00%	7.00%	7.25%	7.25%
26 Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
27 Rate of compensation increase	4.00%	6.10%	4.00%	6.10%

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

**TABLE 10. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - BENEFIT OBLIGATIONS, NET ASSETS AND COST (IN THOUSANDS)**

	2002			2001
	Endowed Ithaca	Medical College	Combined	Combined
<b>Change in benefit obligation</b>				
1 Benefit obligation at beginning of year	\$ 160,890	\$ 26,936	\$ 187,826	\$ 144,276
2 Service costs (benefits earned during the period)	5,425	1,483	6,908	5,324
3 Interest cost on projected benefit obligation	11,697	2,109	13,806	11,193
4 Actuarial (gain) loss	21,911	9,998	31,909	33,574
5 Benefits paid (outside of trust)	( 5,510 )	( 1,527 )	( 7,037 )	( 6,541 )
6 Benefit obligation at end of year	<u>194,413</u>	<u>38,999</u>	<u>233,412</u>	<u>187,826</u>
<b>Change in plan assets</b>				
7 Fair value of plan assets at beginning of year	37,359	15,455	52,814	46,341
8 Return on plan assets	( 3,589 )	( 1,520 )	( 5,109 )	( 5,402 )
9 Employer contribution	4,039	850	4,889	11,875
10 Fair value of plan assets at end of year	<u>37,809</u>	<u>14,785</u>	<u>52,594</u>	<u>52,814</u>
11 Excess (deficiency) of plan assets over projected benefit obligation	( 156,604 )	( 24,214 )	( 180,818 )	( 135,012 )
12 Unrecognized obligation	29,347	10,741	40,088	43,731
13 Unrecognized prior service costs		871	871	1,055
14 Unrecognized net loss (gain) from past experience different than assumed	85,135	11,611	96,746	57,526
15 Prepaid (accrued) postretirement benefit cost	<u>( \$ 42,122 )</u>	<u>( \$ 991 )</u>	<u>( \$ 43,113 )</u>	<u>( \$ 32,700 )</u>
<b>Net periodic postretirement benefit cost components</b>				
16 Service costs (benefits during the period)	\$ 5,425	\$ 1,483	\$ 6,908	\$ 5,324
17 Interest cost on projected benefit obligation	11,697	2,109	13,806	11,193
18 Actual return on plan assets (gain)/loss	3,589	1,520	5,109	5,402
19 <b>Net amortization and deferral of</b>				
20 Initial transition obligation	2,668	976	3,644	3,644
21 Prior service cost		184	184	184
22 Net (gain) loss	2,550		2,550	691
23 Return on plan assets different from expected	( 6,951 )	( 2,911 )	( 9,862 )	( 9,752 )
24 Net periodic postretirement benefit cost	<u>\$ 18,978</u>	<u>\$ 3,361</u>	<u>\$ 22,339</u>	<u>\$ 16,686</u>
	<b>2002</b>		<b>2001</b>	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
<b>Assumptions used in accounting for the plans as of July 1</b>				
25 Discount rate	7.00%	7.00%	7.25%	7.25%
26 Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
27 Health care cost trend rate - initial	10.00%	10.00%	10.00%	4.75%
28 Health care cost trend rate - final	5.00%	5.00%	5.00%	4.75%
29 Years to reach final	6	6	5	0
	<b>2002</b>		<b>2001</b>	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
<b>Effect of 1 percentage point change in assumption of Health Care Cost trend rate</b>				
30 <b>1-Percentage point increase</b>				
31 Effect on total service cost and interest cost components	\$ 3,514	\$ 592	\$ 3,213	\$ 521
32 Effect on accumulated postretirement benefit obligation as of June 30	\$ 31,594	\$ 4,776	\$ 27,297	\$ 3,528
33 <b>1-Percentage point decrease</b>				
34 Effect on total service cost and interest cost components	( \$ 2,755 )	( \$ 484 )	( \$ 2,519 )	( \$ 425 )
35 Effect on accumulated postretirement benefit obligation as of June 30	( \$ 25,541 )	( \$ 4,013 )	( \$ 21,985 )	( \$ 2,957 )

2002 and June 30, 2001, was \$9,893,852 and \$8,722,818, respectively, which are included in the expenses of general operations.

### 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, 2002 and June 30, 2001, the components of net periodic postretirement benefit costs for 2002 and 2001, and the assumptions used in accounting for the plans during 2002 and 2001. The accrued postretirement benefit cost shown in Table 10 is \$10,413,000 of current-year unfunded cost plus \$32,700,000 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 \$133,890,000 for fiscal year 2001-02, and \$130,518,000 for fiscal year 2000-01.

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 \$16,891,196 and \$17,925,386 for fiscal years 2001-02 and 2000-01, 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	2002	2001
1 Instruction	\$ 371,233	\$ 25,639	\$ 396,872	\$ 369,196
2 Research	388,707	25,967	414,674	371,447
3 Public service	96,493	2,641	99,134	94,001
4 Academic support	120,775	29,204	149,979	136,602
5 Student services	82,430	11,272	93,702	87,159
6 Medical services	291,208	2,870	294,078	248,327
7 Institutional support	154,501	14,277	168,778	158,739
8 Enterprises and subsidiaries	135,233	23,924	159,157	150,216
9 Total expenses and deductions	<u>\$1,640,580</u>	<u>\$ 135,794</u>	<u>\$1,776,374</u>	<u>\$1,615,687</u>





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