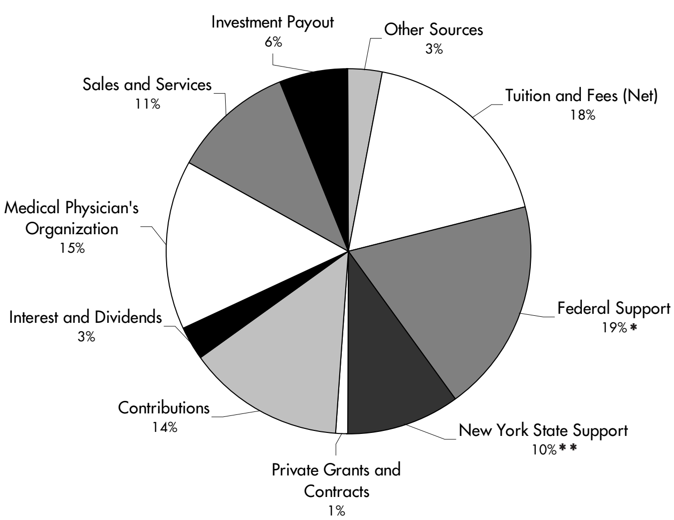
1999–2000 Financial Report

CONTENTS

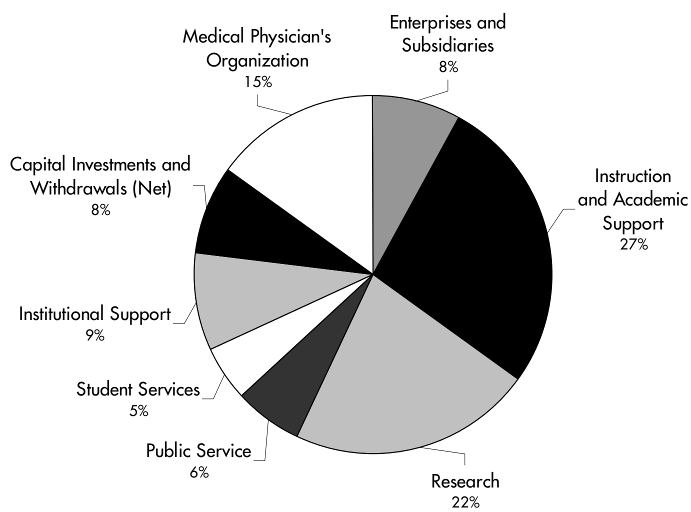
	1989-90	1994-95	1999-00
Fall enrollment (excluding *in absentia*)			
Undergraduate	13,026	13,262	13,669
Graduate	4,389	4,474	4,148
Professional	1,737	1,778	1,843
Total fall enrollment	19,152	19,514	19,660
Degrees granted			
Baccalaureate degrees	3,289	3,392	3,459
Masters degrees	1,184	1,362	1,335
Ph.D. degrees	557	549	481
Other doctoral degrees (J.D., M.D., D.V.M.)	332	376	370
Total degrees granted	5,362	5,679	5,645
Tuition rates			
Endowed	$14,000	$19,000	$23,676
Statutory			
Resident	$ 5,570	$ 7,740	$10,330
Nonresident	$10,040	$14,900	$19,900
Medical	$18,000	$21,300	$27,000
Business	$14,900	$20,400	$25,600
Law	$14,800	$20,000	$25,500
Veterinary medicine	$ 9,000	$12,100	$14,900
Volumes in library (in thousands)	5,363	5,815	6,777
Academic workforce			
Full-time employees			
Faculty	2,629	2,668	2,769
Nonfaculty	830	953	944
Part-time employees			
Faculty	106	120	145
Nonfaculty	174	203	188
Total academic workforce	3,739	3,944	4,046
Nonacademic workforce			
Full-time employees	7,739	7,522	7,702
Part-time employees	526	630	720
Total nonacademic workforce	8,265	8,152	8,422

	1989-90	1994-95	1999-00
Selected financial capital—net assets			
Book value of total university endowment (in millions)	$ 828.2	$1,298.2	$2,766.5
Market value of total university endowment (in millions)	$ 926.9	$1,475.6	$3,436.9
Unit value of Long-Term Investment Pool	$ 23.49	$ 31.28	$ 58.16
Gifts received, excluding pledges (in millions)	$ 161.2	$ 198.4	$ 308.2
New York State appropriations through S.U.N.Y. (in millions)	$ 118.9	$ 126.2	$ 131.8
Medical Physicians' Organization fees (in millions)	$ 130.2	$ 199.4	$ 246.0
Sponsored research volume (in millions)			
Direct expenditures	$ 160.4	$ 192.6	$ 217.2
Indirect-cost recovery	$ 55.2	$ 62.5	$ 79.2
Selected physical capital items			
Additions to land, buildings, and equipment (in millions)	$ 115.7	$ 122.5	$ 345.8
Cost of land, buildings, and equipment (in millions)	$1,366.9	$1,848.1	$2,450.3
Ratio of physical capital net investment to debt	191%	224%	266%
Outstanding bonds, mortgages, and notes payable (in millions)	$ 356.9	$ 435.6	$ 518.0

GENERAL OPERATIONS REVENUES 1999-00



GENERAL OPERATIONS EXPENSES 1999-00



*	*Appropriations*	*1%*
	Grants	*18%*

**	*Appropriations*	*9%*
	Grants	*1%*

MESSAGE FROM THE VICE PRESIDENT FOR FINANCIAL AFFAIRS AND UNIVERSITY CONTROLLER

As we mark the end of one century and the beginning of the next, we find that doing business in the university environment is vastly different from how it was ten years ago; and we expect, because of the explosive growth in the technology environment, that it will continue to change. Indeed, here at Cornell, change is in the air!

Consider that the educational environment has, as its primary customer base, students, who demand instantaneous action and response; who are completely at home with new and changing technologies; who grew up with point-and-click rather than with pen-and-pencil; and who expect their communication devices to be both wireless and remote. It is obvious that we must keep pace with their expectations.

In the next few years, there will be a shakeout within the higher education industry of institutions that adopt the "new economy" and those that remain traditional "brick and mortar". This settling process will be accompanied by either proactive or reactive examinations of core missions and the role of Internet technology. Shifts between the "old" and "new" will require rethinking of critical academic considerations such as copyright, access to data, diversity goals, and privacy. Similarly, capital and operating financial decisions will change, and financing structures may well shift from the traditional not-for-profit mold. To support these changes in the academic landscape, we financial officers are positioning our institutions to take advantage of eCommerce capabilities and to plan for the potential growth in demand for managerial analysis expertise as higher education adapts to and is adapted by the Internet.

In administrative applications, Cornell is stepping concertedly into Business-to-Business (B2B) commerce for supply-chain relationships. Forrest Research estimates that by 2004, companies will sell $2.7 trillion in goods on line. The university is building infrastructure to take advantage of current or imminent eCommerce deliverables, such as integration of multiple electronic catalogs that provide industry-specific or vendor-specific content, or auction and bidding capabilities. The real breakthrough will come when eCommerce is successfully extended to allow on-line procurement of non-commodity goods and services, with Internet management of complex contracts, pricing arrangements, and other features. Cornell's commodity purchases represent 20% of its total purchasing dollars, and the non-commodity purchases absorb much effort. On the "sales" side of eCommerce, colleges and universities are exploring Business to Customer (B2C) opportunities, including Internet admissions and placements. New functionality is being added continually, by the institutions themselves or by "market-makers" and enablers.

One lesson from eCommerce is that if existing procedures are merely digitized without some innovation, there is little return on the investment. Is that lesson applicable in the eLearning space? Are we "paving the cow-path" instead of finding a better route, when we convert lecture notes into on-line format? Some colleges and universities now have instructional designers who assist faculty in bringing new technology into the classroom: the Internet, video streaming, CD-ROM, etc. What's the next frontier for eLearning? How will it shake up the ivy-covered walls of academe? Will it generate a different perspective on access and equity issues? If students and faculty are separated by space and time zones, are the traditional affirmative action and diversity concerns diluted or intensified? What portion of our mission will be carried out using the World Wide Web? The United States Army is spending $600 million over the next six years on distance education courses on the Internet. Which colleges and universities will participate in this initiative? What criteria would an institution use to decide whether to enter the eEducation space, and at what level of participation? In this new environment, how do we balance teaching the substance of academic disciplines and the teaching of learning skills?

The changing Internet landscape means greater uncertainty about what's on the horizon, or even where that horizon is. Physical plant is the largest asset of most colleges and universities, especially if we consider its replacement value. With electronic delivery to far-flung portals, will the traditional ratios of students per square foot of facilities remain constant? This year, Cornell launched eCornell, a distance-learning company, to provide professional certificate programs, on line and worldwide. This is our first unified effort to reach new customers beyond the confines of bricks and mortar. The campus has grappled with the issues of how to protect academic quality and the Cornell "brand" in this venture. Generalizing beyond this specific program, how do we adjust capital planning to the changing environment? Do we continue to plan in the conventional way, replacing and upgrading all kinds of facilities—libraries, laboratories, classrooms, dormitories, art museums—until further notice? Is there enough flexibility in our planning for these long-term commitments to enable "agile" course correction? Are we planning for enough technical infrastructure to satisfy expanding future demand for computer servers, systems analysts, network administrators? Have we attempted to project future demand, to create the new horizon?

How will faculty productivity and tenure decisions be affected by Internet resources? Will the use of new technology be more beneficial to instruction or research? Will it change the cost structures of the university? We know that, like physical plant, technology infrastructure requires large upfront injections of capital. Electronic course delivery also requires significant upfront infusion of faculty and designer effort. Would it be more appropriate for the "new economy" education to use sources of capital that are available to the for-profit market? Are there opportunities for revenue generation without the traditional investment in physical plant?

A major challenge in assessing the financial situation of universities is how to separate the revenues and, especially, expenses associated with "joint products." Large research universities such as Cornell produce instruction, research, and public service using basically the same set of inputs. The faculty member who teaches General Chemistry performs research for the National Science Foundation and also edits a scholarly journal. How we allocate her salary, laboratory supplies, and equipment expenses among the different "products" is an issue that preoccupies managerial accountants. Also consider that a Graduate Teaching Assistant is both an input and an output of the instruction function. Equally interesting is the question of how to ascribe benefits to each service that is provided by the university, the department, or the faculty member. The allocation methodology used results in analysis that may be considered when decisions are made about resource allocation. And it is now complicated by the advent of the Internet as a cost to be allocated and a resource to be funded.

One of the recommendations in the 1998 report of Congressional Commission on the Cost of Higher Education is that "the academic community provide the leadership required to develop better consumer information about costs and prices and to improve accountability to the general public." Key to providing information on the cost of an undergraduate education is the methodology for extracting these costs out of joint costs of "producing" our plethora of services: graduate education, undergraduate education, sponsored research, scholarly research, public service, and co-operative extension. The federal Department of Education has commissioned a study on this topic. Meanwhile, NACUBO (National Association of College and University Business Officers) has formed an ad hoc committee to develop a methodology for calculating the cost of an undergraduate education, as well as a report template.

Another professional initiative under way is the expansion of managerial accounting expertise. The American Institute of Certified Public Accountants coined the term "New Finance" to "describe the revolutionary changes that have taken place globally in financial management in the last decade." The "New Finance" is the body of knowledge in Management Accounting that enables strategic decision-making. It is "less about accounting and more about management."

> "As financial professionals, we take seriously our responsibility to protect the integrity and value of the institution. We strive to ensure that the university's competitiveness is enhanced by decisions on pricing philosophies and expense structures that are supported by relevant and well-thought-out managerial analysis."

Higher education financial professionals are also embracing this new development. I chair a newly formed committee of college and university financial vice presidents, controllers, and budget and planning directors that is developing a new curriculum for our financial staffs to develop skills in tools and analytical thinking to support managerial decisions. Prominently featured in the curriculum are performance measurement and accountability concepts, and issues associated with investment in technology infrastructure. What criteria do we use to decide between "build or buy?" Can we use the traditional business evaluation tools, like discounted cash flow, payback or internal rate of return? How do we set transfer prices? What incentives should be incorporated into the rate schedules? Here at home, Cornell has launched an initiative to inventory all the computer technology services that are provided centrally, and to assign costs, to set chargeback prices, and to allocate resources in accordance with sound management principles.

As financial professionals, we take seriously our responsibility to protect the integrity and value of the institution. We strive to ensure that the university's competitiveness is enhanced by decisions on pricing philosophies and expense structures that are supported by relevant and well-thought-out managerial analysis. At Cornell, I have started a new service for university departments. My Division has created a Virtual Finance and Business Consulting Center to provide guidance to university departments launching new education and business initiatives. The objective of the center is to nurture the growing entrepreneurial spirit of departments, while protecting the university by identifying potential pitfalls, managing risk, and assisting with business strategy and performance measurement. This is also an experiment in organizational change: instead of dedicated staff in a dedicated office, the FBC is an on-line automated website at the Division of Financial Affairs that allows members of the university community to obtain easily any necessary or helpful information from the vast number of experts here at Cornell.

Clearly, what lies ahead in the educational arena is both challenging and exciting, and each of us must bring our very best thinking to the strategy table. In the next decade alone, we will see Cornell adapt and change to meet the opportunities that the technology revolution presents. How we choose our priorities, how we reach our decisions, what methodologies we employ—all will play a critical role in the success that we achieve. I have no doubt that Cornell will benefit from and thrive in this new frontier and that it will continue to be one of the premier institutions in the world—indeed, one of its great international treasures —throughout the twenty first century and beyond.

THE YEAR IN REVIEW

Cornell ended the fiscal year at June 30, 2000, with total assets of \$6.34 billion, total liabilities of \$1.07 billion, and net assets of \$5.27 billion. Total assets rose by \$885 million, or 16.2 percent, over the prior year. Total liabilities rose by \$85 million, or 8.7 percent, from fiscal year 1998–99, and net assets rose by \$799 million, or 17.9 percent.

The most significant increase in the university's assets was in investments, which grew by \$588 million over the prior year, primarily the result of strong investment performance. Cornell's principal investment vehicle is the Long Term Investment Pool (LTIP). The value of the LTIP grew this year by \$527.7 million, or 19.1 percent. The market value per unit at year end was \$58.16, an

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* increase of 13.7 percent over the prior-year unit value of $51.16. The total return for the year was 18.5 percent, compared with 12.2 percent for the prior year. The table below shows the value of the LTIP over the last ten years. The growth over that period, from $23.48 to $58.16 per share represents an annual compound rate of 9.49 percent. This return is net of the distributions from the pool, which have averaged 3.12 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 18) explains this policy. In fiscal years 1999–00 and 1998–99, the payout rates were $1.94 and $1.85 per share, respectively. These rates resulted in distributions of $106.6 million and $95.7 million, for fiscal years 1999–00 and 1998–99, respectively. The payout for 1999-00 was 3.3 percent of the unit share value at year-end and 4.4 percent of the average unit share value for the 12 quarters ending on June 30, 1999. The sources of the payout for fiscal year 1999–00 were $47.5 million in net investment income and $59.1 million in capital appreciation. Equivalent amounts for fiscal year 1998–99 were $52.5 million from investment income and $43.2 million from capital appreciation. The payout rate for fiscal year 2000-01 is set at $2.30 per share.

Table 2 on page 17 of the Notes to the Financial Statements shows the value of Cornell's endowment based on Generally Accepted Accounting Principles. As indicated on the table's subtotal line 6, "total university endowment" is $3.44 billion and corresponds to the numbers in the net-assets section of the Statements of Financial Position (page 11). Purists would probably remove the $53 million of contributions receivable to obtain the value of the university endowment net assets that are actively managed. In fact, the figure reported to the National Association of College and University Business Officers for its longitudinal survey of endowments from all colleges and universities will be $3.3 billion, which is net of the $53 million of contributions receivable. Total endowment assets managed by the university are $3.64 billion (cash and investments), of which $263 million are held for other entities.

Also contributing to the growth in assets was a $198 million increase in contributions receivable, from $210 million at June 30, 1999, to $408 million at June 30, 2000. These numbers represent the present value of the unconditional written or oral promises to donate to the university in the future. Table 5 in the notes (page 21) shows the anticipated payment schedule of the receivable at June 30, 2000, and June 30, 1999. Payments received on existing pledges during fiscal year 1999-00 amounted to $58 million, and the present value of new pledges recorded was $254 million. A number of sizable new pledges were received, specifically for the West Campus Residential Initiative, the tri-institutional research program with Memorial Sloan Kettering and Rockefeller University, and the student aid challenge.

Student loans receivable remained stable. Cornell has an excellent loan collection experience. For the fiscal year ending June 30, 2000, our Perkins Cohort loan default rate was 1.9 percent compared with the national rate as of June 30, 1998, of 8.8 percent (the most current rate available). Similarly, our Cohort default rate on the Federal Direct Lending Program was 2.2 percent for fiscal year 1997-98 versus the national rate of 7.9 percent for the same year.

1989-90	1990–91	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998-99	1999-00
$773.9	$861.5	$ 878.5	$1,027.5	$1,178.5	$1,213.2	$1,424.2	$1,748.4	$2,043.4	$2,427.6	$2,760.3
31.0	46.7	61.0	56.1	50.6	59.2	77.4	72.8	98.9	147.8	146.4
(0.6)	(12.4)	(2.5)	(28.2)	(2.6)	(8.7)	(23.2)	(25.9)	(32.1)	(40.5)	(55.5)
57.2	(17.3)	90.5	123.1	(13.3)	160.5	270.0	248.1	317.4	225.4	436.8
$861.5	$878.5	$1,027.5	$1,178.5	$1,213.2	$1,424.2	$1,748.4	$2,043.4	$2,427.6	$2,760.3	$3,288.0
$ 23.49	$ 23.14	$ 25.36	$ 28.01	$ 27.70	$ 31.28	$ 36.71	$ 41.51	$ 47.65	$ 51.16	$ 58.16

Land, buildings, and equipment increased by $84 million from $1.304 billion to $1.388 billion, an increase of 6.5 percent. Projects completed during the year included renovations to Mann Library and Tjaden Hall. Construction in progress at June 30, 2000, included the Lake Source Cooling project (completed in July of 2000), the North Campus Residential Initiative, and the renovations to Lincoln Hall.

The largest component of the university's liabilities is bonds, mortgages, and notes payable, which totaled $518 million at June 30, 2000, increasing by $63.4 million, or 13.9 percent, from the June 30, 1999 balance. In April 2000, the university received upgrades for both $50 million in new bonds and approximately $360 million in existing bonds from both Standard & Poor's and Moody's Investors Service. The S&P rating went from AA to AA+, and the Moody's Investors Service rating, from Aa2 to Aa1. During the year, a number of new bonds were issued—$50 million through the Tompkins County Industrial Development Agency for the Lake Source Cooling Project; and, through the Dormitory Authority of the State of New York (DASNY), $67 million for the residential initiatives and $88 million to refinance the 1990A debt.

Liabilities for "funds held in trust for others" grew by $12.1 million over the prior year. This liability represents funds that are invested with the university but are not owned by Cornell. These funds are primarily the investments of the Center Fund, detailed in note 1E of the financial statements. The increase is comprised of a Program Related Investment of $8.5 million from the Pew Charitable Trusts for the development of programs in ethics and information sciences, and $3.6 million of investment return on existing agreements.

Information detailing the rise in net assets of $799 million for fiscal year 1990–00, and $428 million for fiscal year 1998–99, is shown in the Statement of Activities and is also summarized in Table 1 of the Notes to the Financial Statements (page 16).

The performance result for unrestricted general operations—which aggregates the activities of the primary and supporting missions of the university—was essentially breakeven, showing a rise in net assets of $15.2 million. This increase represents 1.1 percent of unrestricted general operations sources of $1.426 billion that is left after transfers out of $90 million for capital investment in physical and financial capital. There was an $83 million increase in restricted net assets used for general operations, essentially all of it a result of 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 1999–00. The year's activity resulted in gross additions of $297 million and deductions of $141 million for depreciation and disposals. The net increase for physical capital is therefore $156 million, again much of it the result of contributions receivable recorded this year. The growth in net assets for financial capital was $545 million, primarily the result of substantial investment returns, aided by excellent fund raising (gifts of $135 million).

The university experienced growth in total revenue of $496 million, or 26.7 percent, from the prior year—from $1.856 billion in fiscal year 1998–99 to $2.352 billion for fiscal year 1999–00. The primary source of the increase was in investment returns ($213 million, or 61 percent), comprising interest and dividends, and realized and unrealized gains. The increase in return is 51.6 percent on an investment base that saw a book value growth of $338 million or 14.8 percent. The increase also reflects a change in policy regarding the university's intermediate-term investments that are being invested for the longer term in an asset allocation that includes equities and longer-term debt securities. The other significant change was in contributions, increasing $203 million or 67.1 percent, primarily in contributions receivable, as mentioned above.

There was a rise in expenses of $124 million or 8.7 percent over the prior year, from $1.428 billion to $1.552 billion. The largest dollar increase was in salaries and wages, of $43.0 million or 6.0 percent, largely the result of the university's plan to improve compensation. The largest percentage increases were in depreciation and "other" expenses. Depreciation grew $21.7 million or 20.3 percent, because of a change in the useful life of computers from 5 years to 3 years, which reflects a more realistic schedule for replacement. The increase in "other" expenses, of $2.6 million or 27 percent, reflects a rise in the Weill Medical College capitalization threshold from $500 to $2,000. Assets below that amount were written off as expenses in this category. Table 11 on page 27 of the Notes to Financial Statements shows expenses in their functional classification. There were increases in all functional categories, with the largest dollar amount in instruction, ($28.2 million or 8.6

percent) caused by the rise in salaries mentioned above. The largest percentage growth was in institutional support, ($20.5 million or 15.4 percent), attributable to increased funding for Cornell Information Technologies for maintenance of new systems, and an increase in the amount of depreciation expense and operations and maintenance expenses allocated to the institutional support function.

Turning to the statement of cash flows, the university's cash and cash equivalents decreased $19.9 million during the year, because the receipt on June 30, 1999, of proceeds from the commercial paper issuance was not repeated this year-end. Net cash used by operating activities was $13.7 million and net cash provided by financing activities was $347 million. Because the goal is to be as fully invested as our activities will allow, $353 million was used by investing activities. These figures indicate a pattern somewhat different from the prior year, in which $97 million was generated from operating activities, $190 million was added from financing activities, and $259 million was used by investing activities. The difference in the results from operating activities is due to the number of pledges recorded in fiscal year 1999-00 that are included in the "increase in net assets" but have not been received in cash. The growth in "net cash provided by financing activities" reflects the proceeds of the bonds issued during the year.

In summary, fiscal year 1999–00 was financially very strong for Cornell. Growth in investment returns and pledged contributions added to our substantial capital base, while operating revenues grew sufficiently to cover the increased expenses resulting from President Rawlings' initiatives. These results provide a firm financial base from which the university can confidently embrace the new economic environment.

YS Reynolds

Yoke San L. Reynolds
Vice President for Financial Affairs
and University Controller

Independent Auditor's Report

To the Board of Trustees
Cornell University

We have audited the accompanying statement of financial position of Cornell University as of June 30, 2000, 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 1999 financial statements and, in our report dated September 8, 1999, 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, 2000, 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 8, 2000
Rochester, New York

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2000 AND 1999 (*IN THOUSANDS*)

		General Operations	Physical Capital	Financial Capital	2000 Total	1999 Total
	Assets					
1	Cash and cash equivalents (note 2)	$ 22,998	$ 11,485	$ 205	$ 34,688	$ 54,594
2	Investments (note 2)	351,265	161,488	3,636,491	4,149,244	3,561,112
3	Accounts receivable, net (note 3)					
4	Government	27,430			27,430	22,832
5	Patients	62,042			62,042	57,152
6	Contributions	199,624	156,227	52,513	408,364	210,253
7	Other	72,035	4,958		76,993	60,036
8	Inventories and deferred charges	34,558	6,217		40,775	40,187
9	Student loans receivable (note 3C)	57,461		18,683	76,144	76,537
10	Land, buildings, and equipment, net of accumulated depreciation (note 5)		1,387,944		1,387,944	1,303,748
11	Funds held in trust by others (note 1D)			73,764	73,764	66,039
12	Advances for capital investment	41,177	(41,177)			
13	Total assets	$ 868,590	$1,687,142	$3,781,656	$6,337,388	$5,452,490
	Liabilities					
14	Accounts payable and accrued expenses	$ 125,785			$ 125,785	$ 114,664
15	Deposits and deferred revenues	38,807			38,807	37,020
16	Deferred benefits (note 7)	81,348		$ 47,829	129,177	129,465
17	Funds held in trust for others (note 1E)			109,609	109,609	97,480
18	Obligations under living trust agreements (note 1C)			105,251	105,251	109,305
19	Bonds, mortgages, and notes payable (note 6)	27,220	$ 490,803		518,023	454,642
20	Refundable government grants	40,906			40,906	39,433
21	Total liabilities	314,066	490,803	262,689	1,067,558	982,009
	Net Assets (note 1B)					
22	Unrestricted					
23	Available for operations	244,234			244,234	229,841
24	Designated for student loans	5,438			5,438	4,636
25	Designated for plant		172,878		172,878	225,197
26	Net investment in plant		843,110		843,110	747,062
27	Appreciation on true endowments			1,502,384	1,502,384	1,227,889
28	Funds functioning as endowments			891,379	891,379	775,488
29	Temporarily restricted					
30	Available for operations	304,852			304,852	221,201
31	Designated for plant		180,351		180,351	68,315
32	Funds functioning as endowments			52,386	52,386	31,991
33	Funds subject to living trust agreements			35,442	35,442	27,831
34	Funds held in trust			33,039	33,039	29,692
35	Permanently restricted					
36	Student loan funds			21,795	21,795	20,498
37	True endowments			876,986	876,986	777,313
38	Funds subject to living trust agreements			24,802	24,802	20,159
39	Funds held in trust			80,754	80,754	63,368
40	Total net assets	554,524	1,196,339	3,518,967	5,269,830	4,470,481
41	Total liabilities and net assets	$ 868,590	$1,687,142	$3,781,656	$6,337,388	$5,452,490

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

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2000 (*IN THOUSANDS*)

(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 1999)

		General Operations		Physical Capital		
		Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted
Revenues and other additions						
1	Tuition and fees	$ 413,995				
2	Scholarship allowance	(116,643)				
3	Net tuition and fees	297,352				
4	State appropriations	142,859		$ 14,403		
5	Federal appropriations	18,223				
6	Federal grants and contracts	286,006				
7	State and local grants and contracts	20,663				
8	Private grants and contracts	17,761				
9	Contributions	99,695	$ 136,440	10,379	$ 124,082	$ 27,903
10	Interest and dividends	41,211	3,468	7,230	493	8,376
11	Net realized gain (loss) on investments	527	3			225,113
12	Net unrealized gain (loss) on investments	3,597	505	1,713	195	179,181
13	Medical Physicians' Organization	245,980				
14	Enterprises and subsidiaries	122,531				
15	Educational departments	53,302		3		
16	Other sources	56,473	(6,493)	869	(305)	303
17	Total revenues	1,406,180	133,923	34,597	124,465	440,876
18	Investment payout	43,711	49,623	1		(43,712)
19	Net assets released from restrictions	66,212	(66,212)	18,601	(18,601)	
20	Capital investments (withdrawals)	(89,635)	(33,683)	131,646	6,172	(6,778)
21	Total revenues and other additions	1,426,468	83,651	184,845	112,036	390,386
Expenses (Note 8)						
22	Salaries and wages	760,718				
23	Employee benefits	164,900				
24	Purchased services	86,344				
25	Supplies and general	289,592				
26	Utilities, rents, and taxes	80,023				
27	Interest expense	29,696				
28	Depreciation			128,659		
29	Other			12,457		
30	Total expenses	1,411,273		141,116		
31	**Change in net assets**	15,195	83,651	43,729	112,036	390,386
32	**Total net assets, beginning of year**	234,477	221,201	972,259	68,315	2,003,377
33	**Total net assets, end of year**	$ 249,672	$ 304,852	$1,015,988	$ 180,351	$2,393,763

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

Financial Capital				
Temporarily Restricted	Permanently Restricted	2000 Total	1999 Total	
		$ 413,995	$ 386,261	1
		(116,643)	(108,900)	2
		297,352	277,361	3
		157,262	147,558	4
		18,223	18,308	5
		286,006	280,282	6
		20,663	18,634	7
		17,761	18,383	8
$ 22,555	$ 84,706	505,760	302,622	9
38,470	19,301	118,549	129,128	10
27,675	3,850	257,168	166,192	11
(505)	985	185,671	53,344	12
		245,980	241,398	13
		122,531	116,854	14
	3	53,308	50,882	15
7,014	7,643	65,504	34,949	16
95,209	116,488	2,351,738	1,855,895	17
(49,623)				18
				19
(14,233)	6,511			20
31,353	122,999	2,351,738	1,855,895	21
		760,718	717,746	22
		164,900	159,772	23
		86,344	77,103	24
		289,592	258,034	25
		80,023	71,764	26
		29,696	26,833	27
		128,659	106,967	28
		12,457	9,810	29
		1,552,389	1,428,029	30
31,353	122,999	799,349	427,866	31
89,514	881,338	4,470,481	4,042,615	32
$ 120,867	$1,004,337	$5,269,830	$4,470,481	33

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2000 AND 1999 (*IN THOUSANDS*)

		2000	1999
	Cash flows from operating activities		
1	Increase in net assets	$ 799,349	$ 427,866
2	Adjustments to reconcile change in net assets to net cash provided by operating activities		
3	Nonoperating items		
4	Contributions for physical and financial capital	(277,056)	(163,446)
5	Net realized gains on physical and financial capital investments	(256,638)	(166,667)
6	Income restricted for financial capital	(26,944)	(27,336)
7	Noncash items		
8	Depreciation	128,659	106,967
9	Net unrealized gains on investments	(185,671)	(53,344)
10	Loss on equipment disposals	13,961	7,329
11	Provision for receivable allowances	18,599	16,604
12	Accretion of bond discount	2,569	762
13	Other noncash items	1,138	233
14	Change in assets and liabilities		
15	Accounts receivable	(242,872)	(67,306)
16	Inventories and deferred charges	(2,920)	2,379
17	Accounts payable and accrued expenses	11,121	4,223
18	Deposits and deferred revenues	1,787	1,661
19	Deferred benefits	(288)	4,900
20	Refundable government grants	1,473	1,876
21	**Net cash provided (used) by operating activities**	(13,733)	96,701
	Cash flows from investing activities		
22	Proceeds from the sale of investments	3,372,046	4,776,319
23	Purchase of investments	(3,517,869)	(4,865,236)
24	Acquisition of land, buildings, and equipment (net)	(220,863)	(167,236)
25	Student loans granted	(9,528)	(10,254)
26	Student loans repaid	10,832	10,228
27	Change in funds held in trust for others	12,129	(2,755)
28	**Net cash used by investing activities**	(353,253)	(258,934)
	Cash flow from financing activities		
29	Resources for long-term purposes		
30	Contributions restricted to		
31	Investment in true endowment	79,791	74,392
32	Investment in physical capital	128,508	55,436
33	Investment subject to living trust agreements	7,284	6,255
34	Income restricted for financial capital	26,944	27,336
35	Contributions designated for funds functioning as endowments	47,795	12,859
36	Other financing activities		
37	Principal payments of bonds, mortgages, and notes payable	(184,960)	(40,199)
38	Proceeds from issuance of bonds, mortgages, and notes payable	245,772	45,209
39	Change in obligations under living trust agreements	(4,054)	9,028
40	**Net cash provided by financing activities**	347,080	190,316
41	**Net change in cash and cash equivalents**	(19,906)	28,083
42	**Cash and cash equivalents, beginning of year**	54,594	26,511
43	**Cash and cash equivalents, end of year**	$ 34,688	$ 54,594

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 or Statutory Colleges at Ithaca; 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, six subsidiary corporations are included in the financial statements. All significant intercompany transactions and balances are eliminated in the accompanying financial statements.

B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles, and presented in accordance with *The AICPA Audit and Accounting Guide for Not-for-Profit Organizations*. The standards for general purpose external financial statements of not-for-profit organizations require a statement of financial position, a statement of activities, and a statement of cash flows, and are displayed based on the concept of "net assets." The Audit Guide requires presentation of net assets and revenues, expenses, gains, and losses in three categories, based on the presence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted, and unrestricted net assets.

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

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

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

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

Table 1 shows a summary of the balances and changes in net assets by restriction class for the years ended June 30, 2000 and June 30, 1999.

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, 2000, the university's true endowment net assets consist of approximately 14 percent for unrestricted purposes, 22 percent for student aid, 32 percent for instruction, and 32 percent for other donor-specified purposes. On June 30, 1999, the breakdown was 14 percent for unrestricted purposes, 22 percent for student aid, 31 percent for instruction, and 33 percent for other donor-specified purposes.

C. Living Trust Agreements

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

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

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
1	Net assets at June 30, 1998	$2,969,931	$313,339	$ 759,345	$4,042,615
2	1999 change in net assets:				
3	General operations	5,299	18,579		23,878
4	Physical capital	28,345	38,933		67,278
5	Financial capital	206,538	8,179	121,993	336,710
6	Total change in net assets	240,182	65,691	121,993	427,866
7	Net assets at June 30, 1999	$3,210,113	$379,030	$ 881,338	$4,470,481
8	2000 change in net assets:				
9	General operations	15,195	83,651		98,846
10	Physical capital	43,729	112,036		155,765
11	Financial capital	390,386	31,353	122,999	544,738
12	Total change in net assets	449,310	227,040	122,999	799,349
13	Net assets at June 30, 2000	$3,659,423	$606,070	$1,004,337	$5,269,830

TABLE 2. COMPOSITION OF FINANCIAL CAPITAL NET ASSETS AT JUNE 30, 2000 *(IN THOUSANDS)*
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 1999)

	Net Asset Classification				
	Unrestricted	Temporarily Restricted	Permanently Restricted	**2000**	**1999**
True endowment and unspent earnings, including contributions receivable of $52,513	$1,502,384		$ 876,986	$2,379,370	$2,005,202
Functioning as endowment	891,379	$ 52,386		943,765	807,479
Funds held in trust		33,039	80,754	113,793	93,060
Total university endowment	2,393,763	85,425	957,740	3,436,928	2,905,741
Living trust funds		35,442	24,802	60,244	47,990
Loan funds			21,795	21,795	20,498
Total	$2,393,763	$120,867	$1,004,337	$3,518,967	$2,974,229

D. Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession or under the control of the university. These funds are administered by outside trustees, with the university deriving income or residual interest from the assets of the funds. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the university is notified of its existence. Contribution revenues related to these trusts for the fiscal years 1999-00 and 1998-99 were $656,619 and $6,118,543, respectively.

E. Funds Held in Trust for Others

Financial capital includes funds invested by the university as custodian for others. Independent trustees are responsible for the funds and for the designation of income distribution. The Center Fund, which benefits the New York Cornell Weill Center of the New York Presbyterian Hospital, accounted for $97,212,704 and $85,291,943 at June 30, 2000 and June 30, 1999, respectively. In addition, the present value of expected future income from The Center Fund of approximately $40,029,000 and $27,022,000 at June 30, 2000 and June 30, 1999, respectively, has been recorded in the net assets of financial capital.

F. Medical Physicians' Organization

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

G. Collections

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

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

		2000	1999
1	Cash and cash equivalent holdings	$ 21,116	($ 31,221)
2	Equity Securities		
3	Domestic	1,394,810	1,253,268
4	International	358,917	339,473
5	Debt Securities		
6	Domestic - government	481,191	492,391
7	Domestic - corporate debt securities	434,419	491,805
8	International - governments	100,148	107,569
9	International - corporate	23,514	26,034
10	Mortgages and other asset-backed securities	116,524	131,761
11	Other Investments		
12	Limited partnerships	1,134,620	664,939
13	Real Estate	43,786	48,799
14	Other	40,199	36,294
15	Total Investments	$4,149,244	$3,561,112

H. Use of Estimates

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

I. Change in Accounting Estimate

In fiscal year 2000, the endowed and state Contract colleges of the university changed the useful lives for calculating depreciation of computer equipment from 5 years to 3 years.

As a result of this change, the university recognized an increase in depreciation expense of approximately $19,002,000 in fiscal year 1999-00.

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 generally accepted accounting principles.

Accordingly, such information should be read in conjunction with the university's financial statements for the fiscal year ended June 30, 1999, 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 publicly traded fixed-income and 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 1999-00 and 1998-99 for investing the university's portfolios amounted to approximately $7,300,000 and $6,700,000, respectively. The composition of investments at June 30, 2000 and 1999 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.

Effective July 1, 1998, the Long-Term Investment Pool recorded a 2 for 1 unit split. The opening share value changed from $95.30 per unit to $47.65 per unit. At June 30, 2000 and June 30, 1999, the market prices per unit were $58.16 and $51.16, respectively.

The Long-Term Investment Pool was invested, as of June 30, 2000, as a balanced fund consisting of 66 percent marketable-equity securities, 14 percent real estate and private-equity investments, and 20 percent bonds and fixed-income investments. At June 30, 1999, the pool consisted of 68 percent marketable-equity securities, 8 percent real estate and private-equity investments, and 24 percent bonds and fixed-income investments. The objective is to achieve a total return, net of expenses, of at least 5 percent in excess of inflation, as measured by the Consumer Price Index, over rolling five-year periods. Table 4 summarizes certain information about the Long-Term Investment Pool.

The university has a total return policy. Under this policy, a distribution from the pool is provided for program support that is independent of the cash yield and of appreciation of investments in that year. This insulates investment policy from budgetary pressures, and insulates the distribution from fluctuations in capital markets. The total return of the long-term investment pool was $499,983,203 (18.5 percent) for fiscal year 1999-00. The total return consisted of $63,190,966 (2.3 percent) of income and $436,792,237 (16.2 percent) of appreciation.

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

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

		2000	1999
1	Working capital	$ 47,940	$ 86,326
2	Intermediate-term (resources for spending in less than 3 years)	356,740	306,156
3	Long-term investment pool (resources held for 3 years or longer)	3,287,965	2,760,263
4	Separately invested securities	311,810	302,830
5	Life income fund pools	22,345	22,393
6	DASNY holdings	88,008	39,405
7	Other purposes of investment	34,436	43,739
8	Total Investments	$4,149,244	$3,561,112

TABLE 4. SUMMARY INFORMATION — LONG-TERM INVESTMENT POOL

		Fair Value (*in thousands*)	Cost (*in thousands*)	Net Gain (*in thousands*)	Fair Value Per Unit	Number of Units
	Long-Term Investment Pool					
1	End of year	$3,287,965	$2,621,119	$ 666,846	$58.16	56,529,745
2	Beginning of year	2,760,263	2,283,564	476,699	51.16	53,956,942
3	Unrealized net gain for year			190,147		
4	Change in interest receivable for year			(2,699)		
5	Realized net gain for year			249,344		
6	Net gain for year			$ 436,792		

and to provide reasonable growth in the support of program budgets.

For the year ended June 30, 2000, distributions for investment payout were $106,675,045 ($1.94 per unit), of which $93,334,566 supported general operations and physical capital. The remaining distribution of $13,340,479 went to funds held in trust for others, shown in the accompanying Statement of Financial Position. For the fiscal year ended June 30, 1999, the investment payout was $95,709,539 ($1.85 per unit). The distribution for 2000 was comprised of $47,535,573 in net investment income and $59,139,472 in capital appreciation. The distribution for 1999 was comprised of $52,455,340 in net investment income and $43,254,199 in capital appreciation.

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

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

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, 2000 and June 30, 1999 the university had commitments of approximately $262,270,000 and $212,817,000, 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 leverage futures, options, and other similar vehicles to manage market exposure and to enhance the total return of the investment portfolio. These financial instruments and certain other investments necessarily involve market risk and counterparty credit exposure.

D. Collateral Held for Investments Lent to Brokerage Firms

Investment securities having a fair value of $177,553,642 at June 30, 2000, and $89,512,003 at June 30, 1999, were lent to various brokerage firms. The securities are returnable on demand and were collateralized by cash deposits of $181,318,560 at June 30, 2000 and $92,513,384 at June 30, 1999. 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, 2000 and June 30, 1999, are net of provisions for allowances and doubtful accounts of $70,042,063 and $63,651,285, respectively. Other accounts receivable, including student accounts, at June 30, 2000 and June 30, 1999, are net of allowances for doubtful accounts of $871,481 and $936,851, respectively.

B. Contributions

Contributions, including unconditional written or oral promises to donate to the university in the future, are recognized when received. Contributions of approximately $408,364,000 and $210,253,000, representing the present value of future cash flows, are recorded as receivables at June 30, 2000 and June 30, 1999, respectively. The corresponding revenue is assigned to the appropriate net asset category in the year the promise is received. The face value, discount, and allowance for contributions receivable are shown in Table 5. Conditional promises are recorded when donor stipulations are substantially met. At June 30, 2000 and 1999, conditional promises and donor intentions not reflected in the financial statements were approximately $118,084,000 and $230,629,000, respectively. Expenses related to fund-raising activities amounted to approximately $18,392,000 and $18,578,000 for fiscal years 1999-00 and 1998-99, respectively.

C. Student Loans

Student loans receivable at June 30, 2000 and June 30, 1999, are reported net of allowances for doubtful loans of $7,714,626 and $7,566,567, 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.

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: $4,379,568 and $4,413,782 at June 30, 2000 and June 30, 1999, of financial capital; and $10,399,258 and $10,454,984, respectively, of general operations. During fiscal year 1999-00, a surety bond was purchased to meet the university's security requirements for Workers' Compensation. Consequently, escrow held by the Workers' Compensation Board of New York includes investment securities of financial capital comprised of United States government obligations of $104,992 and $16,156,160 at June 30, 2000 and June 30, 1999, respectively.

Physical capital assets include cash and United States government obligations of $26,391,035 and $22,527,237 at June 30, 2000 and June 30, 1999, respectively, held by DASNY, that will be used primarily for the retirement of debt at a future time. In addition $56,405,265 and $11,670,329 of bond proceeds were on deposit for future project expenditures at June 30, 2000 and 1999, respectively.

TABLE 5. CONTRIBUTIONS RECEIVABLE (*IN THOUSANDS*)

		2000	1999
	Contributions expected to be realized		
1	In one year or less	$126,425	$ 71,427
2	Between one year and five years	279,612	130,475
3	More than five years	152,240	113,149
4		558,277	315,051
5	Discount	(128,420)	(93,732)
6	Allowance	(21,493)	(11,066)
7	Total discount and allowance	(149,913)	(104,798)
8	Total contributions receivable	$408,364	$210,253

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

		Book value at June 30, 1999	Additions	Disposals and Closed Projects	Book value at June 30, 2000
1	Land, buildings, and improvements	$1,342,173	$136,651	$10,435	$1,468,389
2	Furniture, equipment, and books	786,971	75,686	54,186	808,471
3	Construction in progress	158,973	133,429	118,950	173,452
4	Total before accumulated depreciation	2,288,117	$ 345,766	$ 183,571	2,450,312
5	Accumulated depreciation	(984,369)			(1,062,368)
6	Land, buildings and equipment, net	$1,303,748			$1,387,944

Student loan assets in general operations include $5,211,683 and $5,207,002 at June 30, 2000 and June 30, 1999, respectively, on deposit with DASNY, that are available for future loan disbursements and 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 $5,953,000 and $1,778,000 for fiscal years 1999-00 and 1998-99, respectively.

Certain properties to which the university does not have title are included in physical capital at net book value as follows: (1) land and buildings in the amount of $3,735,000 and $3,905,000 at June 30, 2000 and June 30, 1999, respectively, that are leased from DASNY, the titles to which will pass to the university upon retirement of related indebtedness (see note 6); (2) land, buildings, and equipment of the state Contract colleges aggregating $278,203,000 and $273,602,000 at June 30, 2000 and June 30, 1999, 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 $29,353,000 and $25,697,000 at June 30, 2000 and June 30, 1999, respectively.

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, 2000 and June 30, 1999, 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 1999-00 and 1998-99 was approximately $27,127,000 and $26,071,000, respectively. Debt and debt service related to borrowings by New York State for the construction and renovation of plant of the state Contract colleges are not included in the financial statements because they are not liabilities of the university.

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

The fair value of the university's bonds, mortgages, and notes payable is approximately $515,927,000 and $469,023,000 at June 30, 2000 and June 30, 1999, 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.

In March 2000, the university issued $50,000,000 of variable rate revenue bonds through Tompkins County Industrial Develop

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

		Balance June 30, 2000	Balance June 30, 1999	Interest Rates	Maturity Date
	Plant Funds				
1	Dormitory Authority of the State of New York (DASNY)				
2	Revenue Bond Series				
3	E	$ 550	$ 1,125	5.00	2002
4	1986	18,335	18,335	5.00	2015
5	1990A	0	88,135	6.60 to 7.38	2030
6	1990B	59,800	60,000	4.08 to 4.50*	2025
7	1993	16,310	24,610	4.60 to 5.10	2005
8	1996	120,585	127,005	4.50 to 5.40	2014
9	2000A	67,250	0	3.80 to 4.77*	2029
10	2000B	88,135	0	3.80 to 4.77*	2030
11	Bond Series 1987B	17,625	18,110	11.11	2012
12	DASNY 1993 Pooled Loan Program	2,065	2,171	5.00 to 6.20*	2012
13	Commercial Paper 1998	9,300	33,000	3.40 to 4.40*	2018
14	Student Loan Marketing Association	7,095	29,425	5.75 to 6.50	2019
15	Urban Development Corporation	3,625	3,750	zero	2029
16	Capitalized Leases	14,365	10	various	2020
17	GE Capital	254	827	9.78	2001
18	Private Foundation Line of Credit	15,000	18,740	zero	2003
19	Industrial Development Agency	50,000	0	4.30 to 6.00	2030
20	Other	509	692	various	2004
21	Total Physical Capital	490,803	425,935		
	Student Loan Funds				
22	DASNY Bond 1992 Serial	2,530	3,685	6.10 to 6.30	2002
23	DASNY Bond 1992 Capital Appreciation	4,495	4,208	6.60 to 6.80	2009
24	DASNY Bond 1993 Serial	2,160	2,820	4.45 to 4.90	2003
25	DASNY Bond 1993 Capital Appreciation	2,634	2,497	5.25 to 5.50	2007
26	DASNY Bond 1995 Serial	8,590	9,070	4.75 to 5.45	2005
27	DASNY Bond 1995 Capital Appreciation	6,811	6,427	5.70 to 6.15	2011
28	Total General Operations—Student Loans	27,220	28,707		
29	Total Bonds, Mortgages, and Notes Payable	$518,023	$454,642		

** Rates presented are the actual rates paid during fiscal year 1999-00. These rates are variable based on market conditions.*

TABLE 8. ANNUAL DEBT SERVICE REQUIREMENTS *(IN THOUSANDS)*

		Annual Installment		
	Year	Principal	Interest	Total
1	2001	$ 28,929	$ 25,816	$ 54,745
2	2002	32,172	24,307	56,479
3	2003	24,715	22,916	47,631
4	2004	19,675	22,177	41,852
5	2005	19,863	20,147	40,010
6	Thereafter	392,669	217,444	610,113
7	Total	$518,023	$332,807	$850,830

ment Agency to finance the costs of the Lake Source Cooling project and related distribution systems. The proceeds of the debt were used to pay $48,700,000 of commercial paper outstanding. In addition, during April 2000, the university issued, through DASNY, variable rate revenue bonds consisting of $67,250,000 Series A bonds and $88,135,000 Series B bonds. Series A bonds were issued to provide funds for new construction of the North Campus Residential Initiative. The Series B bonds were issued to refund all of the Cornell University Revenue Bonds, Series 1990A. The 1990A bonds were redeemed as of June 30, 2000.

During fiscal year 1999-00, the university entered into a 25-year capital lease arrangement for an apartment building and parking garage located at 312 College Avenue, Ithaca. At June 30, 2000, the present value of the capitalized lease payments amounted to approximately $14,365,000.

In December 1999, the university redeemed a Sallie Mae Marketing Association loan in the amount of $22,135,000 using university reserves.

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

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 plans: those based on a predetermined level of funding (defined contribution) and those 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. In addition, certain accrued benefits and an appropriate amount of the university's pension reserves are frozen in connection with plan reorganizations.

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

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

The defined benefit plans' funded status, amounts recognized in the university's statement of financial position at June 30, 2000, 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, 2000 and June 30, 1999, amounted to $38,356,435 and $36,539,705, respectively.

Employees of the state Contract colleges are covered under the New York State pension plan. Contributions to the state retirement system and other fringe-benefit costs are paid directly by the state. The amount of the direct payments applicable to the university as revenue and expenditures is not currently determinable and is not included in the financial statements. The university reimburses the state for fringe-benefit costs on certain salaries, principally those associated with externally sponsored programs. The amount reimbursed to the state during the years ended June 30, 2000 and June 30, 1999, was $7,881,294 and $6,413,862, 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 9. DEFINED BENEFIT PENSION PLANS – BENEFIT OBLIGATIONS, NET ASSETS AND COST (*IN THOUSANDS*)

				2000	1999
		Endowed Ithaca*	Medical College	Combined	Combined
	Change in benefit obligation				
1	Benefit obligation at beginning of year	$21,665	$26,796	$48,461	$49,083
2	Service costs (benefits earned during the period)	2	1,084	1,086	1,466
3	Interest cost on projected benefit obligation	1,516	1,863	3,379	3,399
4	Actuarial (gain) loss	305	(533)	(228)	(566)
5	Benefits paid	(2,216)	(1,836)	(4,052)	(4,921)
6	Benefit obligation at end of year	21,272	27,374	48,646	48,461
	Change in plan assets				
7	Fair value of plan assets at beginning of year	37,552	39,694	77,246	72,414
8	Return on plan assets	2,603	2,742	5,345	9,753
9	Benefits paid	(2,216)	(1,836)	(4,052)	(4,921)
10	Fair value of plan assets at end of year	37,939	40,600	78,539	77,246
11	Excess of plan assets over projected benefit obligation	16,667	13,226	29,893	28,785
12	Unrecognized net obligation (asset) at July 1, 1987, recognized over fifteen years	598	(183)	415	621
13	Unrecognized prior service costs		331	331	439
14	Unrecognized net loss (gain) from past experience different than assumed	(5,672)	(11,462)	(17,134)	(18,887)
15	Prepaid pension cost	$11,593	$ 1,912	$13,505	$10,958
	Net periodic pension cost components				
16	Prepaid service cost	2	$ 1,484	$ 1,486	$ 1,466
17	Interest cost on projected benefit obligation	1,516	1,863	3,379	3,399
18	Actual return on plan assets	(2,603)	(2,742)	(5,345)	(9,753)
19	Net amortization and deferral of				
20	Initial transition obligation	299	(92)	207	207
21	Prior service cost		108	108	108
22	Net (gain) loss	(277)	(778)	(1,055)	(832)
23	Return on plan assets different from expected	(682)	(646)	(1,328)	3,514
24	Net periodic pension cost (income)	($ 1,745)	($ 803)	($ 2,548)	($ 1,891)

		2000		1999	
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Assumptions used in accounting for the plans as of June 30				
25	Discount rate	7.25%	7.25%	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)*

				2000	1999
		Endowed Ithaca	Medical College	Combined	Combined
	Change in benefit obligation				
1	Benefit obligation at beginning of year	$114,255	$ 19,061	$133,316	$110,328
2	Service costs (benefits earned during the period)	3,717	1,090	4,807	4,573
3	Interest cost on projected benefit obligation	8,365	1,579	9,944	9,128
4	Actuarial (gain) loss	(442)	2,207	1,765	14,250
5	Benefits paid (outside of trust)	(4,380)	(1,176)	(5,556)	(4,963)
6	Benefit obligation at end of year	121,515	22,761	144,276	133,316
	Change in plan assets				
7	Fair value of plan assets at beginning of year	24,197	14,727	38,924	31,823
8	Return on plan assets	2,394	571	2,965	3,248
9	Employer contribution	3,681	771	4,452	3,853
10	Fair value of plan assets at end of year	30,272	16,069	6,341	38,924
11	Excess (deficiency) of plan assets over projected benefit obligation	(91,243)	(692)	(97,935)	(94,392)
12	Unrecognized net transition asset	34,683	12,693	47,376	51,020
13	Unrecognized prior service costs		1,239	1,239	1,423
14	Unrecognized net loss (gain) from past experience different than assumed	22,138	(7,248)	14,890	12,763
15	Prepaid (accrued) postretirement benefit cost	(34,422)	($ 8)	(34,430)	(29,186)
	Net periodic postretirement benefit cost components				
16	Service costs (benefits during the period)	$ 3,717	$ 1,090	$ 4,807	$ 4,573
17	Interest cost on projected benefit obligation	8,365	1,579	9,944	9,128
18	Actual return on plan assets	(2,394)	(571)	(2,965)	(3,248)
19	Net amortization and deferral of				
20	Initial transition obligation	2,668	976	3,644	3,644
21	Prior service cost		184	184	184
22	Net (gain) loss	725	(548)	177	(48)
23	Return on plan assets different from expected	216	(754)	(538)	384
24	Net periodic postretirement benefit cost	13,297	$ 1,956	15,253	14,617

			2000		1999
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Assumptions used in accounting for the plans as of July 1				
25	Discount rate	7.25%	7.25%	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	6.50%	5.00%	7.00%	5.50%
28	Health care cost trend rate - final	4.75%	4.75%	4.75%	4.75%
29	Years to reach final	4	1	5	2

			2000		1999
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Effect of 1 percentage point change in assumption of Health Care Cost trend rate				
30	1-Percentage point increase				
31	Effect on total service cost and interest cost components	2,485	447	2,404	365
32	Effect on accumulated postretirement benefit obligation as of June 30, 2000	21,001	3,037	19,870	2,518
33	1-Percentage point decrease				
34	Effect on total service cost and interest cost components	(1,944)	(363)	(1,872)	(296)
35	Effect on accumulated postretirement benefit obligation as of June 30, 2000	(16,867)	(2,534)	(15,900)	(2,101)

Table 10 sets forth the funded status of the plans as of June 30, 2000 and June 30, 1999, the components of net periodic postretirement benefit costs for 2000 and 1999, and the assumptions used in accounting for the plans during 2000 and 1999. The accrued postretirement benefit cost shown in Table 10 is $5,244,000 of current-year unfunded cost plus $29,186,000 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, depreciation, and interest have been allocated to functional categories using square-footage statistics. The amount allocated for operations and maintenance was approximately $122,448,000 for fiscal year 1999-00, and $107,300,000 for fiscal year 1998-99.

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 $12,589,449 and $10,379,261 for fiscal years 1999-00 and 1998-99, respectively, are 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	**2000**	**1999**
1	Instruction	$ 326,421	$ 29,227	$ 355,648	$ 327,491
2	Research	331,707	27,188	358,895	333,441
3	Public service	84,598	3,038	87,636	79,650
4	Academic support	103,906	28,091	131,997	121,280
5	Student services	73,056	11,076	84,132	77,080
6	Medical services	226,792	2,474	229,266	220,216
7	Institutional support	137,262	16,683	153,945	133,405
8	Enterprises and subsidiaries	127,531	23,339	150,870	135,466
9	Total expenses and deductions	$1,411,273	$ 141,116	$1,552,389	$1,428,029

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JULY 1, 2000

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