2003-2004 Financial Report

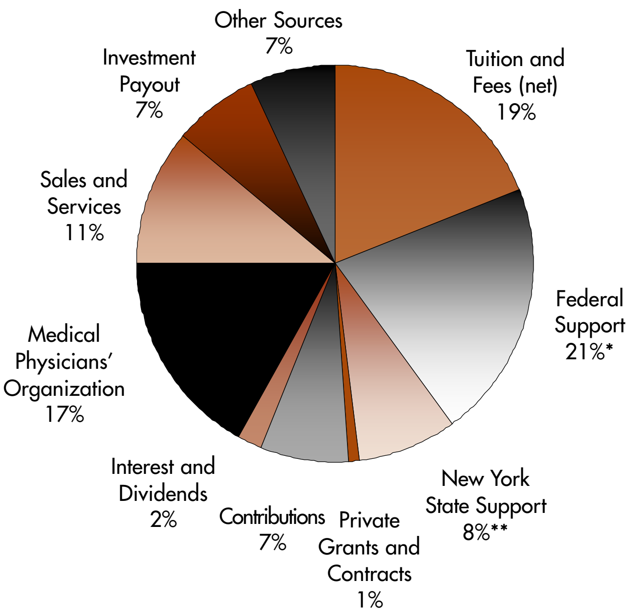
CONTENTS

CORNELL UNIVERSITY HIGHLIGHTS

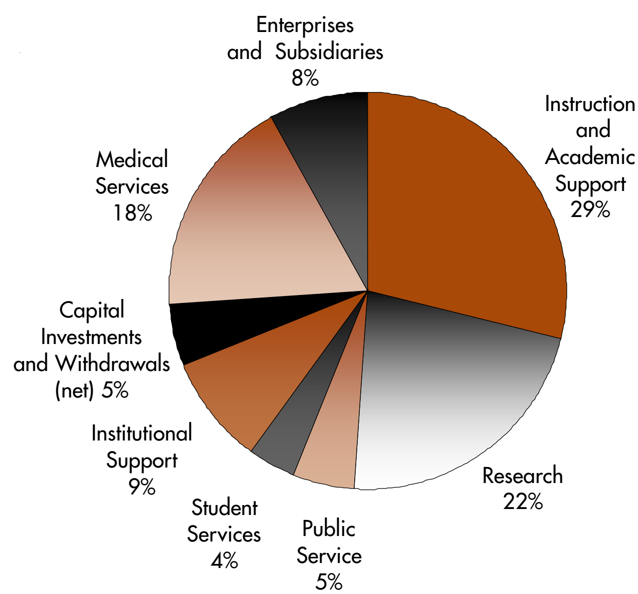
	2003-04	2002-03	2001-02
Fall enrollment (excluding in absentia)			
Undergraduate	13,655	13,725	13,801
Graduate	4,656	4,534	4,435
Professional	1,981	1,978	1,905
Total fall enrollment	20,292	20,237	20,141
Degrees granted			
Baccalaureate degrees	3,577	3,630	3,565
Masters degrees	1,658	1,550	1,572
Ph.D. degrees	448	434	418
Other doctoral degrees (J.D., M.D., D.V.M.)	376	352	361
Total degrees granted	6,059	5,966	5,916
Tuition rates			
Endowed Ithaca	$ 28,630	$ 27,270	$ 25,970
Contract Colleges			
Resident	$ 14,500	$ 13,150	$ 11,970
Nonresident	$ 25,800	$ 23,500	$ 22,200
Medical Campus	$ 30,170	$ 29,200	$ 28,500
Business	$ 32,800	$ 30,975	$ 29,500
Law	$ 32,970	$ 31,250	$ 29,200
Veterinary medicine	$ 19,100	$ 18,200	$ 16,540
Volumes in library (in thousands)	7,505	7,298	7,136
Academic workforce			
Full-time employees			
Faculty	2,886	2,839	2,821
Nonfaculty	1,006	989	1,008
Part-time employees			
Faculty	158	150	152
Nonfaculty	198	201	176
Total academic workforce	4,248	4,179	4,157
Nonacademic workforce			
Full-time employees	8,653	8,557	8,413
Part-time employees	776	781	749
Total nonacademic workforce	9,429	9,338	9,162

	2003-04	2002-03	2001-02
Selected financial capital—net assets			
Book value of total university endowment (in millions)	$2,854.8	$2,528.0	$2,771.5
Market value of total university endowment (in millions)	$3,314.2	$2,914.6	$2,920.1
Unit value of Long Term Investment Pool	$46.51	$42.65	$44.95
Gifts received, excluding pledges (in millions)	$385.9	$317.0	$363.0
New York State appropriations through SUNY (in millions)	$129.5	$129.5	$142.2
Medical Physicians' Organization fees (in millions)	$341.3	$306.5	$283.1
Sponsored research volume (in millions)			
Direct expenditures	$336.2	$319.3	$270.0
Indirect-cost recovery	$109.0	$97.4	$93.5
Selected physical capital items (in millions)			
Additions to land, buildings, and equipment	$408.4	$300.3	$305.1
Cost of land, buildings, and equipment	$2,910.7	$2,837.7	$2,696.4
Outstanding bonds, mortgages, and notes payable	$606.0	$494.7	$518.6

GENERAL OPERATIONS REVENUES 2003-04



GENERAL OPERATIONS EXPENSES 2003-04



* *Appropriations* 1%
Grants 20%

** *Appropriations* 7%
Grants 1%

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND CHIEF FINANCIAL OFFICER

My colleagues and I are pleased to present the Cornell University Annual Financial Report for 2003-04. This report describes, in strictly financial terms, a university that is strong, healthy, and growing. Not as easily observed in these numbers, however, are all the other things that make for a great research university: a world-class faculty, immensely talented students, a dedicated and skilled staff, an increasing volume of high-impact research, and an attentive and supportive body of alumni and friends continuing a strong tradition of philanthropy.

Cornell remains successful in drawing to the Ithaca and Medical College campuses some of the very best teachers and scholars for its faculty, competing successfully for their talents with the finest major research universities. Student interest in a Cornell degree is high, with roughly 21,000 applicants for 3,050 positions in the entering freshmen class. Those that do come to Cornell are roughly evenly divided between men and women, about 31% of them report themselves as students of color, and the median SAT scores of the admitted students is high and continues to increase—overall a very talented and diverse group of individuals.

"While Cornell's financial situation is solid, it still cannot relax its vigilance for containing costs, nor can it retreat from its tradition of being entrepreneurial and resourceful in response to opportunities or challenges."

Research support from external sponsors continues to be robust, increasing slightly from that reported in 2002-03. The principal sources of this support remain the federal government, principally the Department of Health and Human Services and the National Science Foundation, with the former's support growing significantly over the last several years.

As noted in this report, the university's net assets expanded to $5.5 billion in 2003-04, an increase of almost $478 million, or 9.5%. A strong contributor to this growth was the performance of Cornell's investment portfolio, which has rebounded from the more difficult earnings environment of the first few years of this decade. Since investments are such a major component of the university's overall assets, total asset performance depends heavily on investment performance. General operations ended the year with a slight surplus, as it has for many years. In effect, the university continues to operate with a balanced operational budget, as mandated by the trustees.

"An example of that management is Cornell's highly successful deployment of interdisciplinary centers, which allows faculty research and student scholarship to take advantage of the university's many strengths in a variety of academic areas."

While Cornell's financial situation is solid, it still cannot relax its vigilance for containing costs, nor can it retreat from its tradition of being entrepreneurial and resourceful in response to opportunities or challenges. As financial resources are limited, such attention is required if Cornell is to compete successfully with our peers. For example, while Cornell's endowment is substantial, the large size of the student body results in an endowment per student that is quite modest by Ivy League standards or in comparison to many of the universities with which Cornell competes for students and faculty. Since the cost structure for most major research universities is roughly equivalent, revenue from the endowment plays an important role in enriching and differentiating the basic educational experience of students. Cornell's endowment per student is, for example, the lowest in the Ivy League. Thus, the university must make up in wise resource management what it lacks in competitive financial resources. An example of that management is Cornell's highly successful deployment of interdisciplinary centers, which allows faculty research and student scholarship to take advantage of the university's many strengths in a variety of academic areas while avoiding duplication and redundant costs.

A significant, ongoing effort to contain costs has focused on how administrative work is performed at Cornell. This multi-year program reviewed individual roles of administrative staff members and the processes at their disposal. Findings of that study resulted in a fundamental reorganization of some major administrative functions. Overall, the process is expected to remove roughly $15 million annually from administrative costs, making those funds available to support of academic programs.

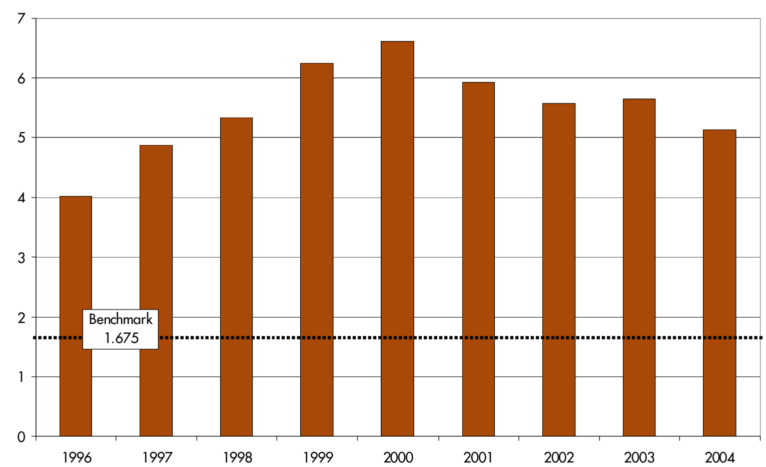
At his inauguration in October 2003, President Lehman invited all faculty, staff, students, and alumni to participate with him in a "Call to Engagement," a unique process encouraging all members of the university community to consider what Cornell's place should be upon the celebration of its sesquicentennial in the year 2015. Participants were asked to share their views on what Cornell should teach, to whom and how; where Cornell should be present; and how Cornell should be organized. As of the end of June 2004, roughly 740 responses had been received from approximately 1,200 individuals. Informed by the thoughts of those individuals, President Lehman is expected sometime this fall to outline his vision for the Cornell of the future.

It is likely that any major academic initiatives that emerge from the Call to Engagement and other strategic planning exercises will require new or substantially renovated facilities. Further, there are a number of major facilities that are already being planned or designed to support current academic objectives. The costs of these new facilities will be supported by a combination of philanthropy and operating budgets. The projects will rely on short and long-term debt, perhaps more than has been the practice in the past, in order to allow progress to be made while resources are being marshaled.

"As noted in the graph on this page, Cornell's current viability ratio is about 5. The industry standard calls for a ratio between 1.25 and 2.00. Clearly, Cornell has substantial room to maneuver."

Fortunately, the university has been conservative with its use of debt in recent years (some would argue that Cornell is under-leveraged), so substantial capacity remains without endangering the university's current Aa1/AA+ credit rating. One indicator of this capacity is the viability ratio--the availability of expendable net assets to cover long-term debt--a ratio heavily influenced by endowment investment performance. As noted in the graph on this page, Cornell's current viability ratio is about 5. The industry standard calls for a ratio between 1.25 and 2.00. Clearly, Cornell has substantial room to maneuver.

VIABILITY RATIO



In almost every respect Cornell remains a healthy, vibrant, exciting place to study, teach, and pursue one's curiosity. The future looks similarly bright. And as I write this, Cornell is enjoying a warm, bright late summer day. The students have returned for the fall semester, adding an element of electricity to campus, and the physical beauty of the campus and environs remains stunning. As I now look to retirement, I feel extraordinarily fortunate to have spent the better part of my career at this remarkable university.

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

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

In fiscal 2004, Cornell-Ithaca continued to pursue initiatives that are yielding savings and higher quality of service in a number of areas. As pointed out in the message from the Vice President for Administration, Hal Craft, the primary beneficiary of these changes has been the university's academic program which has been strengthened by the addition of funds released by greater administrative efficiency.

The integration and consolidation of effort and resources of primary university functions and operation units through the creation of business service centers was an important feature of this past fiscal year. This consolidation eliminated over 60 FTE's in financial processing and strengthened internal controls over financial transactions. It has allowed more focused training and the development of an Accounting Certification Program, a 14-week course for administrative staff that gives attendees the "big picture" by concentrating on multiple areas of accounting, policies and procedures. Competency testing is required in this program, which saw 54 graduates during this past fiscal year.

Other initiatives that have complemented organizational changes include enhancements to systems that support financial processes. These enhancements now enable transactions to be conducted by individuals across the institution without regard to physical location. For example, this year we delivered electronic scanning capabilities for documentation on various financial transactions, such as journal entries, payment requests and account establishment. Electronic scanning streamlines transaction review and approval and improves long-term record keeping. In addition, we are delivering tools to campus that improve processes such as the handling of travel claims. Now service centers and travelers can submit expense reports electronically for review, approval, routing and reimbursement.

> "In fiscal year 2005, we will complete the vendor review project, further enhance our workflow applications (including a cash receipts system) and continue to improve reporting capabilities to campus."

A review of all major university non-payroll expenditures was conducted to gain a better understanding of the university's buying practices. Armed with details of the university's purchasing behavior, we are approaching current suppliers with new, more comprehensive business propositions. Negotiations for Cornell (including the Weill Medical College) with many suppliers are projected to yield several million dollars in annual savings. In addition to the savings, predetermined discounts in new arrangements with vendors mean Cornell staff will be able to avoid time-consuming competitive bidding on some purchases.

In fiscal year 2005, we will complete the vendor review project, further enhance our workflow applications (including a cash receipts system) and continue to improve reporting capabilities to campus. Work will also continue in the procurement area to ensure the best pricing and service for campus.

GOVERNMENT REGULATIONS AND CHANGES IN THE FINANCIAL REPORT

Financial Accounting Standard 132, *Enhanced Disclosures for Pensions and Post-retirement Benefits,* is applicable to both public and non-public companies and has been incorporated into the university's financial report for this fiscal year. Consequently, the disclosures for both the Endowed Ithaca and Weill Medical College defined benefit plans, as well as both units' post-retirement benefit obligations, have been enhanced to show investment targets, asset allocations, and anticipated future benefit payments. It is important to note that the Endowed Ithaca Pension Plan is a frozen plan that applies to very few former and long-term employees of the university. Most current employees, both exempt and non-exempt, are eligible for a defined contribution plan to which these enhanced disclosures do not apply.

The university's auditors were required to consider a new Statement on Auditing Standard, or SAS 101, regarding fair value measurements and disclosures of the university's closely held investments. The new standard introduces additional requirements specific to the evaluation of the fair value of those university investments that are not publicly traded. SAS guidance suggests using a specialist to evaluate management's assumptions and the appropriateness of the valuation model for these investments.

In the federal government arena, the June 2004 issue of *Federal Auditing News* reports on revisions by the Office of Management and Budget to the three cost principles circulars: A-21, *Cost Principles for Educational Institutions,* and Circulars A-87 and A-122, affecting state, local, and Indian tribal governments, and non-profit organizations, respectively. These revisions are meant to clarify the costs that might be expected to arise in the performance and administration of federal grants and contracts, and, where possible, create consistency across the three circulars. Notable changes include clarification of the allowability requirements in relation to scholarships and student aid, idle capacity in facilities, and frequency of review of rates for specialized service facilities.

THE YEAR IN REVIEW

During fiscal year 2003-04, the university's wealth rebounded back to the pre-2001 level due to strong returns in the financial markets. Overall assets and liabilities grew as a result of increased borrowing for capital projects.

Cornell ended the fiscal year at June 30, 2004 with total assets of $7.0 billion, total liabilities of $1.5 billion, and net assets of $5.5 billion. Total assets grew by $707 million, or 11.2 percent, from the prior year. Total liabilities from fiscal year 2002–03 increased by $229 million, or 17.9 percent, and net assets rose by nearly $478 million, or 9.5 percent.

Cash and cash equivalents dropped significantly, from nearly $100 million at June 30, 2003 to $60 million at June 30, 2004. The decrease reflects the more aggressive investment policy (discussed in the next paragraph), which sets aside a sufficient amount of cash for working capital, and requires all the rest to be invested in a manner similar to the university's endowment funds. Although this new policy was adopted prior to the current fiscal year, its effect is reflected in the cash balances at June 30, 2004.

> "The most significant increase was in investments… nearly 60% of total assets ... (resulting from) improved performance in both our domestic and international stock portfolios (and strong returns from) the private equity and real estate sectors."

The most significant increase in the university's assets was in investments, which at June 30, 2004 was nearly $4.2 billion. This is compared to $3.6 billion at June 30, 2003, an increase of $528 million, or 14.6 percent. Investments are nearly 60% of total assets. A revised approach to investing the university's short-term (non-endowment) investments was adopted late in fiscal year 2002-03. All financial assets were combined into an investment strategy similar to that which had been used historically for the endowment and similar funds. Therefore, although we still can isolate and report on the Long Term Investment Pool (LTIP) (which represents most of the endowment and similar funds), the majority of investment monitoring and reporting encompasses what are now called the "long-term investments." These comprise almost all of the non-working capital financial assets.

The university's long-term investments returned 16.1 percent, net of management and custody fees. This compares with a return of 1.9 percent for fiscal year 2002-03. This increase is due to improved performances in both our domestic and international stock portfolios. The private equity and real estate sectors also delivered strong returns for the year.

Focusing on just the Long Term Investment Pool, the market value per unit at year-end was $46.51, up 9.1 percent from the prior year's unit value of $42.65. The table on the following pages shows the value of the LTIP over the last ten years. Growth over that period, from $27.70 to $46.51 per share, represents an annual compound rate of 4.8 percent. This return is net of the distributions from the pool, which have averaged 4.8 percent per year over the same ten-year period.

Cornell's policy on distributions from the LTIP is based on total return, rather than on annual cash yield. Note 2 in *Notes to the Financial Statements* (page 18) explains this policy. In fiscal years 2003–04, the payout rate was $2.43 per share. This rate resulted in a distribution of $157.1 million for fiscal year 2003-04. In fiscal year 2001–02, the payout rate was $2.70 per share, resulting in a distribution of $167.5 million.

The dividend for 2003-04 was 5.2 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, 2003. The sources of the payout for fiscal year 2003–04 were $42.8 million in net investment income and $114.3 million in capital appreciation. Equivalent amounts for fiscal year 2002–03 were $35.6 million from investment income and $131.9 million in capital appreciation provided by previously accumulated gains. The payout rate for fiscal year 2004-05 has been lowered by 7.4 percent to $2.25 per share.

Table 2 in *Notes to the Financial Statements* (page 17) 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 $3.314 billion and is incorporated in the numbers in the Net Assets section of the *Statement of Financial Position* (page 11). Purists would probably remove the $76 million of contributions receivable to obtain the value of the university's 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 calculated in this way (net of $76 million contributions receivable) to total $3.238 billion.

Contributions receivable decreased $22 million, or 5.8 percent, from $382 million at June 30, 2003 to $360 million at June 30, 2004. These numbers represent the present value of the unconditional promises to donate to the university in the future. The decrease in contributions receivable is due to the fact that payments are being collected on existing pledges, with fewer new pledges received this year. Table 5 in *Notes to the Financial Statements* (page 20) shows the anticipated payment schedule of the receivables at June 30, 2004, and June 30, 2003. Payments received on existing pledges during fiscal year 2003-04 totaled $128 million.

There was also an increase in other receivables from $86 million to $135 million. This increase is due to a very large matured bequest, recognized during the fiscal year for $40 million, with approximately $20 million outstanding as of June 30, 2004. The other significant portion of the increase is caused by the growth in the amount due to the Weill Medical College from the New York Presbyterian Hospital.

Student loans receivable decreased slightly from $70 million at June 30, 2003 to $67 million at the end of 2004. Cornell has an excellent loan collection experience. For the fiscal year ending June 30, 2004, our Perkins Loan Cohort Default rate was 1.91 percent compared to the national rate as of June 30, 2003 of 8.85 percent (the most current rate available).

"Total revenue grew by $607 million, or 32 percent, from the prior year—from $1.903 billion to $2.510 billion."

The value of land, buildings, and equipment increased by $145 million, from $1.583 billion to $1.729 billion, or 9.2 percent. Projects completed during the year included Duffield Hall, renovations to Davis Laboratory of Clark Hall, and the addition of an Electron Beam Lithography system at the Nano-Scale Science and Technology Facility. Construction in progress at June 30, 2004 included the West Campus Residential Initiative – Building #1, an addition to the School of Hotel Administration, and the initial phase of the Life Science Technology Building.

The largest component of the university's liabilities is bonds, mortgages, and notes payable, which totaled $606 million at June 30, 2004, increasing by $111 million, or 22.5 percent, from the June 30, 2003 balance. This increase is the result of the issuance of taxable commercial paper, the Weill Medical College-Southtown #2 capital lease, and DASNY revenue bond series 2004 used to fund approximately $51 million of new projects and to refund $41 million of tax exempt commercial paper. The university's debt rating of AA+ by Standard & Poor's and Aa1 by Moody's Investors Service was reconfirmed upon the issuance of the 2004 bond series. In lieu of using internal funds, the university plans to use taxable commercial paper to fund working capital, small renovations and other projects that are not eligible for tax exempt financing. Large projects (greater than $50 million) with a long useful life are generally financed with more conventional bond issues. Plans for capital projects, including the funding sources, are approved by the Capital Funding and Priorities Committee (greater than $500,000), and/or the Board of Trustees (greater than $2 million) before outside financing is arranged.

Information detailing the large increase in net assets of $477.5 million for fiscal year 2003–04, and the slight increase of $2.7 million for fiscal year 2002–03, 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, shows a rise in net assets of $16 million. This increase represents 0.8 percent of unrestricted general operations sources of $1.9 billion. There was an $11 million decline in restricted net assets used for general operations, essentially the result of higher utilization of donor-restricted funds for program activities. 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 2003–04. The year's activity resulted in gross additions of $220 million, primarily capital investments in new buildings, equipment, and principal payments on outstanding debt. Deductions for depreciation and disposals were $146 million. Funding for the construction of Duffield Hall, the addition to the School of Hotel Administration, and the West Campus Residential Initiative – Building #1 was drawn from contributions that had been received for these purposes.

Net assets in financial capital increased by $398.4 million, due primarily to investment returns. Financial capital realized gains were $160 million and unrealized gains were $224 million.

Total revenue grew by $607 million, or 32 percent, from the prior year—from $1.903 billion in fiscal year 2002–03 to $2.510 billion for fiscal year 2003–04. The primary cause was the increase in investment returns, from a positive $41 million in fiscal year 2002-03 ($126 million in unrealized gains), to a positive $465 million in fiscal year 2003-04 (with $280 million in unrealized gains), a gain of $424 million. The other significant increase in revenues was in contributions, a gain of $127 million over the prior-year amount, an increase of 57%. New gifts this year included the $40 million ma-

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

tured bequest mentioned above and $30 million for the Living and Learning Initiative.

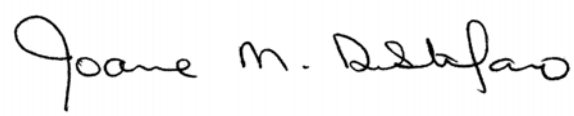
There was modest growth in expenses from the prior year in the amount of $132 million, or 6.9 percent, from $1.900 billion to $2.032 billion. Employee benefit expenses grew $20 million, or 9.1 percent, due to increases in employee benefit costs at the Medical College. Supplies and general expense increased $29 million, or 8.7 percent. More than $10 million of the increase is due to a change in accounting estimate in which the threshold at which a purchase would be considered a capital asset was raised. Prior to fiscal year 2003-04, the level was $500 for computer equipment, and $1500 for all other equipment. Effective July 1, 2003, the threshold was raised to $5,000 for all equipment. Therefore, purchases during this year that would have been capitalized and depreciated under the lower threshold are now being expensed as durable supplies. The remaining increases (5.7 percent) in this category are in travel, student aid, subcontracts, and repairs and maintenance. These increases reflect a university that is expanding its global reach in instruction, research and service.

While the university's debt increased substantially, interest expenses decreased slightly. Bonds issued this year were at variable rates, which are currently very favorable. Depreciation expense increased $13 million or 10.7 percent — another result of the change in capital threshold mentioned previously. For those assets that were under the threshold and un-depreciated, the remaining amount of $19 million was taken this year. Finally, other deductions increased by nearly $4 million, reflecting the costs incurred to decommission the Ward Center's nuclear reactor.

Table 11 in *Notes to the Financial Statements* on page 28 shows expenses by functional category. During fiscal year 2003-04, university expenses showed the largest increase in the categories of academic support ($21.3 million, 13.1 percent) and institutional support ($22.9 million, 13.5 percent). The growth in academic support is largely the result of activities at the Weill Medical College in Doha, Qatar. The rise in institutional support expenses is due to a number of projects and initiatives, but was also caused by a change in funding for data connection services — from a fee-for-service for the full cost to a central appropriation for a portion of the service. This change led to a reclassification of the activity from being that of an enterprise to being part of overall institutional support.

The *Statement of Cash Flows* on page 14 details the decrease in cash discussed earlier in this presentation. The operating activities of the university "used" cash of approximately $1 million, caused by a growth in receivables. Net cash provided by financing activities was $297 million, reflecting the proceeds from the issuance of bonds and commercial paper. Investing activities used $336 million to achieve the goal of full investment.

In summary, fiscal year 2003-04 was a solid financial year for Cornell, benefiting primarily from the strong investment market and continued high levels of private contributions. The unrestricted general operations activity generated a modest surplus, and physical and financial capital showed significant increases. These results indicate that the university remains financially strong with adequate long-term and short-term resources to support both current and new global initiatives.



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

1993–94	1994–95	1995–96	1996–97	1997–98	1998-99	1999-00	2000–01	2001–02	2002-03	2003-04
$ 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	$ 2,750.4	$ 2,720.8
50.6	59.2	77.4	72.8	98.9	147.8	146.4	135.4	132.5	124.3	88.9
(2.6)	(8.7)	(23.2)	(25.9)	(32.1)	(40.5)	(55.5)	(84.6)	(110.5)	(128.1)	(116.4)
(13.3)	160.5	270.0	248.1	317.4	225.4	436.8	(294.9)	(315.5)	(25.8)	376.9
$1,213.2	$1,424.2	$1,748.4	$2,043.4	$2,427.6	$2,760.3	$3,288.0	$3,043.9	$2,750.4	$2,720.8	$3,070.2
$ 27.70	$ 31.28	$ 36.71	$ 41.51	$ 47.65	$ 51.16	$ 58.16	$51.85	$44.95	$42.65	$46.51

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, 2004, 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 2003 financial statements and, in our report dated September 9, 2003, 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, 2004, 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 7, 2004
Rochester, New York

STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2004 (*IN THOUSANDS*)

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2003)

		General Operations	Physical Capital	Financial Capital	**2004** Total	**2003** Total
	Assets					
1	Cash and cash equivalents (note 2)	$ 4,501	$ 22,164	$ 33,090	$ 59,755	$ 99,858
2	Collateral for securities loaned (note 2B)			235,681	235,681	205,238
3	Investments (note 2)	600,806	129,961	3,419,982	4,150,749	3,622,966
4	Accounts receivable, net (note 3)					
5	Government	54,772			54,772	45,295
6	Patient	57,276			57,276	57,065
7	Contributions	195,327	88,530	75,879	359,736	382,070
8	Other	128,629	5,202	1,430	135,261	85,674
9	Inventories and deferred charges	35,203	6,293		41,496	38,859
10	Student loans receivable (note 3C)	49,423		17,482	66,905	69,750
11	Land, buildings, and equipment, net (note 5)		1,728,844		1,728,844	1,583,491
12	Funds held in trust by others (note 1D)			100,384	100,384	93,818
13	Total assets	$ 1,125,937	$ 1,980,994	$ 3,883,928	$ 6,990,859	$ 6,284,084
	Liabilities					
14	Accounts payable and accrued expenses	$ 208,145	$ 16,697		$ 224,842	$ 190,259
15	Securities loan agreements payable (note 2B)			$ 235,681	235,681	205,238
16	Deposits and deferred revenues	62,612	1,262		63,874	58,740
17	Deferred benefits (note 7)	116,539		47,102	163,641	154,885
18	Funds held in trust for others (note 1E)			86,540	86,540	62,107
19	Living trust obligations (note 1C)			86,327	86,327	71,692
20	Bonds, mortgages, & notes payable (note 6)	16,018	589,937		605,955	494,748
21	Refundable government grants	43,577			43,577	43,477
22	Total liabilities	446,891	607,896	455,650	1,510,437	1,281,146
	Net Assets (note 1B)					
23	Unrestricted					
24	Available for operations	336,713			336,713	319,705
25	Designated for student loans	3,734			3,734	5,091
26	Designated for plant		188,251		188,251	155,659
27	Net investment in plant		1,013,003		1,013,003	956,311
28	Appreciation on true endowments			1,044,965	1,044,965	874,127
29	Funds functioning as endowments			848,341	848,341	736,099
30	Temporarily restricted					
31	Available for operations	338,599			338,599	349,296
32	Designated for plant		171,844		171,844	186,954
33	Funds functioning as endowments			96,506	96,506	81,323
34	Funds subject to living trust agreements			47,962	47,962	51,916
35	Funds held in trust			39,556	39,556	35,681
36	Permanently restricted					
37	Student loan funds			30,639	30,639	29,995
38	True endowments			1,177,340	1,177,340	1,077,313
39	Funds subject to living trust agreements			35,449	35,449	33,370
40	Funds held in trust			107,520	107,520	110,098
41	Total net assets	679,046	1,373,098	3,428,278	5,480,422	5,002,938
42	Total liabilities and net assets	$ 1,125,937	$ 1,980,994	$ 3,883,928	$ 6,990,859	$ 6,284,084

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

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004 (*IN THOUSANDS*)

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2003

		General Operations		Physical Capital	
		Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
	Revenues and other additions				
1	Tuition and fees	$ 532,645			
2	Scholarship allowance	(158,187)			
3	Net tuition and fees	374,458			
4	State appropriations	140,127		$ 10,487	
5	Federal appropriations	17,048			
6	Federal grants and contracts	409,514			
7	State and local grants and contracts	24,373			
8	Private grants and contracts	21,398			
9	Contributions	83,926	$ 65,198	14,680	$ 26,313
10	Interest and dividends	38,217	3,245	808	732
11	Net realized gain (loss) on investments	25,919	2		
12	Net unrealized gain on investments	42,141	347	13,300	
13	Medical Physicians' Organization	341,289			
14	Enterprises and subsidiaries	149,251			
15	Educational departments	60,694		6	
16	Other sources	61,488	2,341	(93)	1,255
17	Total revenues	1,789,843	71,133	39,188	28,300
18	Investment payout	110,793	26,953	46	
19	Net assets released from restrictions	79,698	(79,698)	1,782	(1,782)
20	Capital investments (withdrawals)	(77,971)	(29,085)	194,016	(41,628)
21	Total revenues and other additions	1,902,363	(10,697)	235,032	(15,110)
	Expenses (Note 8)				
22	Salaries and wages	1,024,843			
23	Employee benefits	237,238			
24	Purchased services	138,977			
25	Supplies and general	365,273			
26	Utilities, rents, and taxes	99,134			
27	Interest expense	21,247			
28	Depreciation			136,414	
29	Other			9,334	
30	Total expenses	1,886,712		145,748	
31	Change in net assets	15,651	(10,697)	89,284	(15,110)
32	Total net assets, beginning of year	324,796	349,296	1,111,970	186,954
33	Total net assets, end of year	$ 340,447	$ 338,599	$1,201,254	$ 171,844

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

	Financial Capital				
Unrestricted	Temporarily Restricted	Permanently Restricted	**2004** Total	**2003** Total	
			$ 532,645	$ 493,217	1
			(158,187)	(144,017)	2
			374,458	349,200	3
			150,614	158,708	4
			17,048	18,770	5
			409,514	397,244	6
			24,373	23,979	7
			21,398	35,672	8
$ 61,137	$ 17,426	$ 81,387	350,067	222,606	9
21,144	21,816	906	86,868	91,155	10
145,722	10,129	3,808	185,580	(84,713)	11
221,050	2,092	829	279,759	126,059	12
			341,289	306,469	13
			149,251	143,358	14
			60,700	60,553	15
374	(6,249)	(91)	59,025	54,295	16
449,427	45,214	86,839	2,509,944	1,903,355	17
(110,839)	(26,953)				18
					19
(55,508)	(3,157)	13,333			20
283,080	15,104	100,172	2,509,944	1,903,355	21
			1,024,843	973,240	22
			237,238	217,535	23
			138,977	129,258	24
			365,273	335,959	25
			99,134	94,154	26
			21,247	21,999	27
			136,414	123,261	28
			9,334	5,236	29
			2,032,460	1,900,642	30
283,080	15,104	100,172	477,484	2,713	31
1,610,226	168,920	1,250,776	5,002,938	5,000,225	32
$1,893,306	$ 184,024	$1,350,948	$5,480,422	$5,002,938	33

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2004 (*IN THOUSANDS*)

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2003)

		2004	2003
	Cash flows from operating activities		
1	Increase in net assets	$ 477,484	$ 2,713
	Adjustments to reconcile change in net assets to net cash provided by operating activities		
	Nonoperating items		
2	Contributions for physical and financial capital	(192,253)	(90,228)
3	Net realized (gains)/losses on physical and financial capital investments	(159,659)	84,713
4	Income restricted for financial capital	(815)	(13,067)
	Noncash items		
5	Depreciation	136,414	123,261
6	Net unrealized (gains)/losses on investments	(279,759)	(126,059)
7	Loss on equipment disposals	6,228	2,628
8	Provision for receivable allowances	26,267	1,213
9	Accretion of bond discount	939	973
10	Other noncash items	(2,810)	1,705
	Change in assets and liabilities		
11	Accounts receivable	(61,893)	85,750
12	Inventories and deferred charges	163	(3,113)
13	Accounts payable and accrued expenses	34,583	30,879
14	Deposits and deferred revenues	5,134	22,774
15	Deferred benefits	8,756	24,911
16	Refundable government grants	100	(41)
17	Net cash provided/(used) by operating activities	(1,121)	149,012
	Cash flows from investing activities		
18	Proceeds from the sale and maturities of investments	2,823,346	2,929,806
19	Purchase of investments	(2,911,711)	(2,961,662)
20	Acquisition of land, buildings, and equipment (net)	(273,621)	(194,555)
21	Student loans granted	(13,777)	(13,888)
22	Student loans repaid	15,317	15,608
23	Change in funds held in trust for others	24,433	(12,058)
24	Net cash used by investing activities	(336,013)	(236,749)
	Cash flows from financing activities		
	Resources for long-term purposes		
	Contributions restricted to		
25	Investment in true endowment	76,925	37,642
26	Investment in physical capital	18,268	8,894
27	Investment subject to living trust agreements	8,674	4,097
28	Income restricted for financial capital	815	13,067
29	Contributions designated for funds functioning as endowments	74,012	37,239
	Other financing activities		
30	Principal payments of bonds, mortgages, and notes payable	(26,851)	(25,146)
31	Proceeds from issuance of bonds, mortgages, and notes payable	137,119	274
32	Change in obligations under living trust agreements	8,069	4,106
33	Net cash provided by financing activities	297,031	80,173
34	Net change in cash and cash equivalents	(40,103)	(7,564)
35	Cash and cash equivalents, beginning of year	99,858	107,422
36	Cash and cash equivalents, end of year	$ 59,755	$ 99,858

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

NOTES TO 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, eight subsidiary corporations are included in the financial statements. All significant intercompany 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, 2004 and June 30, 2003.

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.

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, 2004, the university's true endowment net assets consisted of approximately 16 percent for unrestricted purposes, 25 percent for student aid, 40 percent for instruction, and 19 percent for other donor-specified purposes. On June 30, 2003, the breakdown was 15 percent for unrestricted purposes, 24 percent for student aid, 41 percent for instruction, and 20 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*. The discount rates for the fiscal years 2003-04 and 2002-03 were 5.75% and 7.00%, respectively.

D. Funds Held in Trust by Others

Funds held in trust 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

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

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
1	Net assets at June 30, 2002	$ 3,080,831	$ 731,183	$ 1,188,211	$ 5,000,225
	2003 change in net assets:				
2	General operations	27,536	(12,287)		15,249
3	Physical capital	22,909	(30,598)		(7,689)
4	Financial capital	(84,284)	16,872	62,565	(4,847)
5	Total change in net assets	(33,839)	(26,013)	62,565	2,713
6	Net assets at June 30, 2003	3,046,992	705,170	1,250,776	5,002,938
	2004 change in net assets:				
7	General operations	15,651	(10,697)		4,954
8	Physical capital	89,284	(15,110)		74,174
9	Financial capital	283,080	15,104	100,172	398,356
10	Total change in net assets	388,015	(10,703)	100,172	477,484
11	Net assets at June 30, 2004	$ 3,435,007	$ 694,467	$ 1,350,948	$ 5,480,422

TABLE 2. COMPOSITION OF FINANCIAL CAPITAL NET ASSETS AT JUNE 30, 2004 (*IN THOUSANDS*)
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2003)

		Net Asset Classification				
		Unrestricted	Temporarily Restricted	Permanently Restricted	**2004**	**2003**
1	True endowment and unspent earnings, including contributions receivable of $75,878.	$ 1,044,965		$ 1,177,340	$ 2,222,305	$ 1,951,440
2	Functioning as endowment	848,341	$ 96,506		944,847	817,422
3	Funds held in trust		39,556	107,520	147,076	145,779
4	Total university endowment	1,893,306	136,062	1,284,860	3,314,228	2,914,641
5	Living trust funds		47,962	35,449	83,411	85,286
6	Loan funds			30,639	30,639	29,995
7	Total	$ 1,893,306	$ 184,024	$ 1,350,948	$ 3,428,278	$ 3,029,922

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 2003-04 and 2002-03 were $2,332,678 and $276,396, 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 $79,987,568, and $72,862,624 at June 30, 2004 and June 30, 2003, 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 $46,691,861 and $51,960,992 at June 30, 2004 and June 30, 2003, respectively, has been recorded in 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 set aside 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 *Statement of Financial Position*. Gifts of collection items are recorded as increases in net assets in the year in which the items are acquired.

H. 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 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 *Statement of Financial Position*. The change in the fair value of the derivative instruments is also included in net unrealized gain 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 by 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, 2003 from which the summarized information was derived.

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

		2004	2003
1	Cash and cash equivalent holdings	$ 267,277	$ (22,912)
	Equity securities		
2	Domestic	1,149,743	1,306,519
3	International	575,734	274,975
	Debt securities		
4	Domestic - government	338,149	614,328
5	Domestic - corporate debt securities	197,252	275,032
6	International - governments	66,700	55,195
7	International - corporate	26,482	29,775
8	Mortgages and other asset-backed securities	30,751	78,540
	Other investments		
9	Limited partnerships	1,458,963	951,058
10	Real estate	6,189	27,217
11	Other	33,509	33,239
12	Total investments	$ 4,150,749	$ 3,622,966

K. Reclassifications

In previous years certain prior-year amounts were reclassified to conform to the current-year's presentation. However, for fiscal year 2003-04, no reclassifications were required.

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 non-marketable 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 2003-04 and 2002-03 for investing the university's portfolios amounted to approximately $7,000,000 and $5,900,000, respectively. The composition of investments at June 30, 2004 and June 30, 2003 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. Collateral Held for Investments Lent to Brokerage Firms

Investment securities having a fair value of $228,609,221 and $199,323,136 at June 30, 2004 and June 30, 2003, 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 $235,681,598 and $205,238,322 and an offsetting liability for the return of the collateral in Financial Capital on the *Statement of Financial Position* at June 30, 2004 and June 30, 2003, respectively. The collateral is invested in short-term securities and income earned is credited as additional income to the investment pools.

C. 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 Long Term Investment Pool (LTIP) 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 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*)

		2004	2003
1	Working capital	$ 8,159	$ 11,827
2	Intermediate-term (resources for spending in less than 3 years)	646,936	508,790
3	Long-term investment pool (resources held for 3 years or longer)	3,070,235	2,720,790
4	Separately invested securities	333,282	317,349
5	Life income fund pools	20,633	20,900
6	DASNY holdings	66,934	39,923
7	Other purposes of investment	4,570	3,387
8	Total investments	$ 4,150,749	$ 3,622,966

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, 2004 and June 30, 2003, the market prices per unit were $46.51 and $42.65, respectively. The total return on the university's long-term investments, of which the LTIP is a component, was 16.1 percent for fiscal year 2003-04.

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. 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, 2004, distributions for investment payout were $157,090,152 ($2.43 per unit), of which $137,791,523 supported general operations and physical capital. The remaining distribution of $19,298,629 was returned to principal, or went to funds held in trust for others, shown in the accompanying *Statement of Financial Position*. The distribution for 2004 was comprised of $42,749,256 in net investment income and $114,340,896 paid from accumulated gains. For the fiscal year ended June 30, 2003, the investment payout was $167,553,378 ($2.70 per unit). The distribution for 2003 was comprised of $35,634,933 in net investment income and $131,918,445 paid from prior year accumulated gains.

At June 30, 2004, 1,128 of 4,832 true endowment funds invested in the LTIP had market values below book values by $20,325,748, on a total book value of $310,549,366 for those funds. The university holds significant unrestricted appreciation on endowments to offset this temporary decrease in value. The university has maintained these true endowment funds at their historical dollar values.

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.

TABLE 4. SUMMARY INFORMATION - LONG TERM INVESTMENT POOL

		Fair Value *(in thousands)*	Cost *(in thousands)*	Net Change *(in thousands)*	Fair Value Per Unit	Number of Units
	Long Term Investment Pool					
1	End of year	$ 3,070,235	$ 2,612,901	$ 457,334	$ 46.51	66,016,562
2	Beginning of year	$ 2,720,790	$ 2,502,861	$ 217,929	$ 42.65	63,791,217
3	Unrealized net gain for year			$ 239,405		
4	Realized net gain/(loss) for year			$ 137,455		
5	Net gain/(loss) for year			$ 376,860		

D. Other Investments

Under the terms of certain limited partnership agreements, the university is obligated to advance additional funding for private-equity and real estate investments periodically . At June 30, 2004 and June 30, 2003, the university had commitments of approximately $567,006,000 and $335,806,000, 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 has approved the use of derivatives by outside investment managers, based on investment guidelines negotiated at the time the manager was appointed. The derivatives in the investment portfolio at June 30, 2004 are used for three purposes: to adjust fixed income duration and rates, to create "synthetic exposures" to certain types of investments, and to hedge foreign currency fluctuations.

Derivatives are used as fixed income substitutes when the investment manager determines that using a derivative contract provides the least expensive, and therefore potentially more profitable way of "exposing" the portfolio to opportunities for increased returns, rather than buying underlying securities directly. These transactions typically involve buying futures or swap contracts on U.S. Treasury securities or on foreign government securities. Commodity investments are used by the university to diversify the investment portfolio and as a general hedge against an inflationary economic environment that might reduce the value of the traditional stock and bond holdings in the portfolio. The most efficient means of creating these investments is through derivative contracts that rise or fall in price in direct correlation to the value of an underlying commodity index. In addition, derivative instruments are used to adjust the foreign currency exposure of the investment portfolio for securities whose prices are denominated in foreign currencies.

The university's investment guidelines require that the investment managers only use counterparties with very strong credit ratings for these derivatives. The notional amount of the exposures at June 30, 2004 was approximately $554,756,000, with the largest portion, $499,344,000, going to the creation of synthetic exposures in fixed income substitutes and commodities. The notional amount of the exposures as of June 30, 2003 was approximately $38,535,000. As a result of this activity, the university has recorded unrealized losses of $696,300 and unrealized gains of $61,897 for fiscal years 2003-04 and 2002-03, respectively.

3. ACCOUNTS AND LOANS RECEIVABLE

A. Patient Accounts and Other

Patient accounts receivable at June 30, 2004 and June 30, 2003, are net of provisions for allowances and doubtful accounts of $78,059,422 and $58,866,618, respectively. Other accounts receivable, including student accounts, at June 30, 2004 and June 30, 2003 are net of allowances for doubtful accounts of $1,975,833 and $1,701,680, 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 $359,736,000 and $382,070,000, representing the present value of future cash flows, are recorded as receivables at June 30, 2004 and June 30, 2003, 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, 2004 and 2003, conditional promises and donor intentions not reflected in the financial statements were approximately $98,815,000 and $114,060,000, respectively. Expenses related to fund-raising activities amounted to approximately $25,570,000 and $24,667,000 for fiscal years 2003-04 and 2002-03, respectively.

TABLE 5. CONTRIBUTIONS RECEIVABLE (*IN THOUSANDS*)

		2004	2003
	Contributions expected to be realized		
1	In one year or less	$ 98,062	$ 92,735
2	Between one year and five years	291,774	288,196
3	More than five years	72,793	138,335
4	Gross contributions receivable	462,629	519,266
5	Discount	(83,960)	(117,087)
6	Allowance	(18,933)	(20,109)
7	Total discount and allowance	(102,893)	(137,196)
8	Net contributions receivable	$ 359,736	$ 382,070

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

		Book value at June 30, 2003	Additions	Disposals and Closed Projects	Book value at June 30, 2004
1	Land, buildings, and improvements	$ 1,797,141	$ 160,461	$ 4,820	$ 1,952,782
2	Furniture, equipment, books, and collections	887,873	82,475	210,227	760,121
3	Construction in progress	152,712	165,474	120,415	197,771
4	Total before accumulated depreciation	2,837,726	$ 408,410	$ 335,462	2,910,674
5	Accumulated depreciation	(1,254,235)			(1,181,830)
6	Land, buildings and equipment, net	$ 1,583,491			$ 1,728,844

C. Student Loans

Student loans receivable at June 30, 2004 and June 30, 2003, are reported net of allowances for doubtful loans of $9,553,578 and $8,439,983, 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: $10,104,930 and $10,138,715 at June 30, 2004 and June 30, 2003, respectively, of financial capital; and $389,793, and $389,541, 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 $124,950 and $106,281 at June 30, 2004 and June 30, 2003, respectively.

Physical capital assets include cash and United States government obligations of $32,670,096, and $36,682,363 at June 30, 2004 and June 30, 2003, respectively. These assest are held by DASNY to be used primarily for the retirement of debt at a future time. In addition, $30,999,585 and $14,586 of bond proceeds were on deposit for future project expenditures at June 30, 2004 and 2003, respectively.

Assets in general operations for student loans include $3,264,783 and $3,225,883 at June 30, 2004 and June 30, 2003, 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 $14,374,000 and $2,356,000 for fiscal years 2003-04 and 2002-03, respectively.

Certain properties to which the university does not have title are included in physical capital at net book value as follows: (1) land, buildings, and equipment of the contract colleges aggregating $317,198,000 and $317,759,000 at June 30, 2004 and June 30, 2003, respectively, the acquisition cost of which was borne primarily by New York State; and (2) land, buildings, and equipment for which title rests with government and corporate agencies aggregating $24,299,000 and $23,417,000 at June 30, 2004 and June 30, 2003, respectively.

Effective July 1, 2003, the university changed the capitalization threshold for moveable and fixed equipment from $1,500 ($500 for computers and related equipment) to $5,000. As a result of that change, during fiscal year 2003-04, the remaining depreciation of approximately $19,178,000 for the items under the capital threshold has been included in the Statement of Activities.

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, 2004 and June 30, 2003, 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 2003-04 and 2002-03 was approximately $20,308,000 and $21,027,000, 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 $614,952,000 and $509,817,000 at June 30, 2004 and June 30, 2003, 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.

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, in effect at June 30, 2004, 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 4.63 percent on a notional amount of $81,300,000 (expiring July 1, 2030); 2.99 percent on a notional amount of $83,055,000 (expiring October 1, 2004); 4.52 percent on a notional amount of $42,905,000 (expiring July 1, 2030); and 4.33 percent on a notional amount of $15,390,000 (expiring July 1, 2010). Net payments or receipts under the swap agreement are recorded as an adjustment to interest expense.

The university continues to issue tax-exempt 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.

In fiscal year 2003-04, the university established a program to issue $100,000,000 of taxable commercial paper to finance working capital, capital projects and equipment purchases for the Ithaca and Medical College campuses. As of June 30, 2004, the par amount outstanding was $42,589,000. In addition, the university issued $92,100,000 of auction rate bonds through DASNY. The proceeds were used to redeem approximately $41 million of tax-exempt commercial paper outstanding and to finance approximately $51 million of new construction projects and renovations.

In October 2003, the university entered into a capital lease for the Southtown residential building on Roosevelt Island in New York City. The present value of the 30-year obligation is estimated at $40,140,000 and is included in the *Statement of Financial Position*. Payments under the lease are scheduled to begin October 2004. Please refer to Note 9 for additional information.

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 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 fund annually 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. No employer or employee contributions were made during fiscal years 2003-04 or 2002-03.

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

		Balance June 30, 2004	Balance June 30, 2003	Interest Rates	Maturity Date
	Plant Funds				
1	Dormitory Authority of the State of New York (DASNY)				
2	Revenue Bond Series				
3	1990B	$ 58,700	$ 59,000	0.40 to 1.27*	2025
4	1993	660	1,290	5.00 to 5.10	2005
5	1996	82,550	91,795	5.00 to 5.40	2014
6	2000A	63,055	64,505	2.99	2029
7	2000B	82,085	83,695	4.63	2030
8	2004	92,100	0	1.00 to 1.07*	2033
9	Bond Series 1987B	14,135	15,150	11.11	2012
10	DASNY 1993 Pooled Loan Program	1,554	1,696	1.10 to 1.20*	2012
11	Tax-Exempt Commercial Paper	21,480	68,760	0.85* to 2.99	2028
12	Taxable Commercial Paper	42,589	0	1.07 to 1.25*	-
13	Industrial Development Agency				
14	2000	7,070	7,900	4.75 to 5.25	2011
15	2002A	42,905	43,070	4.52	2030
16	2002B	15,390	15,390	4.33	2015
17	Student Loan Marketing Association	6,180	6,430	5.75 to 6.50	2019
18	Urban Development Corporation	3,125	3,250	zero	2029
19	Capitalized leases				
20	312 College Ave	12,791	13,213	various	2020
21	WMC-Southtown #2	40,140	0	5.80	2034
22	Other	3,428	431	various	2006-2028
23	Total Physical Capital	589,937	475,575		
	Student Loan Funds				
24	DASNY Bond 1992 Capital Appreciation	2,963	4,083	6.70 to 6.80	2009
25	DASNY Bond 1993 Capital Appreciation	2,463	3,089	5.25 to 5.50	2007
26	DASNY Bond 1995 Serial	1,995	3,890	5.35 to 5.45	2005
27	DASNY Bond 1995 Capital Appreciation	8,597	8,111	5.70 to 6.15	2011
28	Total General Operations—Student Loans	16,018	19,173		
29	Total Bonds, Mortgages, and Notes Payable	$ 605,955	$ 494,748		

** Rates presented are the actual rates paid during fiscal year 2003-04. These rates are variable based on market conditions.*

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

	Year	Principal	Interest	Total
1	2005	$ 20,119	$ 27,385	$ 47,504
2	2006	19,573	27,558	47,131
3	2007	21,740	26,470	48,210
4	2008	21,141	25,312	46,453
5	2009	22,741	24,041	46,782
6	Thereafter	500,641	277,580	778,221
7	Total	$ 605,955	$ 408,346	$ 1,014,301

The defined benefit plans' funded status, amounts recognized in the university's *Statement of Financial Position*, asset allocations, calculation assumptions, and anticipated benefit payments are shown in Tables 9A and 9B.

The assets are invested for the sole benefit of the plan's beneficiaries. Consistent with that objective, investments are managed to maximize total return while maintaining a prudent limitation on risk. Risk mitigation is achieved by diversifying investments across multiple asset classes, by investing in high quality securities and by permitting flexibility in the balance of investments in the permitted asset classes. The expected return on assets was derived based on long-term assumptions of inflation, real returns (which are primarily historically based), anticipated value added by the investment managers, and expected average asset class allocations.

Total pension costs of the Endowed Ithaca and Medical College plans for the year ended June 30, 2004 and June 30, 2003 amounted to $56,217,192 and $51,247,423, respectively.

Employees of the contract colleges are covered under the New York State pension plans. Contributions to the state retirement system and other employee benefit costs are paid directly by the state. The amounts of the direct payments applicable to the university as revenue and expenditures are not currently determinable and are not included in the financial statements. The university reimburses the state for

TABLE 9A. DEFINED BENEFIT PENSION PLANS - BENEFIT OBLIGATIONS, PLAN ASSETS AND COST (*IN THOUSANDS)*

		2004			2003
		Endowed Ithaca*	Medical College	Combined	Combined
1	Accumulated benefit obligation at end of year	$ 19,907	$ 31,491	$ 51,398	$ 50,435
	Change in benefit obligation				
2	Projected benefit obligation at beginning of year	$ 21,177	$ 36,427	$ 57,604	$ 50,290
3	Service cost (benefits earned during the period)		2,477	2,477	1,858
4	Interest cost on projected benefit obligation	1,160	2,279	3,439	3,420
5	Actuarial (gain)/loss	(457)	2,472	2,015	5,954
6	Benefits paid	(1,972)	(2,249)	(4,221)	(3,918)
7	Projected benefit obligation at end of year	19,908	41,406	61,314	57,604
	Change in plan assets				
8	Fair value of plan assets at beginning of year	27,435	30,327	57,762	59,977
9	Actual return on plan assets	3,605	4,358	7,963	1,703
10	Benefits paid	(1,972)	(2,249)	(4,221)	(3,918)
11	Fair value of plan assets at end of year	29,068	32,436	61,504	57,762
12	Funded status	9,160	(8,970)	190	158
13	Unrecognized prior service cost				7
14	Unrecognized net actuarial loss/(gain) from past experience different than assumed	6,660	6,295	12,955	15,805
15	Net amount recognized - prepaid/(accrued) benefit cost	$ 15,820	$ (2,675)	$ 13,145	$ 15,970
	Components of net periodic benefit cost				
16	Service cost (benefits earned during the period)		$ 2,477	$ 2,477	$ 1,858
17	Interest cost	$ 1,160	2,279	3,439	3,420
18	Expected return on plan assets	(2,119)	(2,184)	(4,303)	(5,082)
19	Amortization of prior service cost		7	7	108
20	Amortization of net (gain)/loss	657	548	1,205	274
21	Net periodic benefit cost /(income)	$ (302)	$ 3,127	$ 2,825	$ 578

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

TABLE 9B. DEFINED BENEFIT PENSION PLANS - BENEFIT OBLIGATIONS, PLAN ASSETS AND COST

Estimated future benefit payments from the trust (*in thousands*)

		Endowed Ithaca*	Medical College	Combined
1	2005	$ 1,877	$ 2,122	$ 3,999
2	2006	1,825	2,237	4,062
3	2007	1,774	2,275	4,049
4	2008	1,738	2,257	3,995
5	2009	1,705	2,424	4,129
6	2010-2014	7,850	16,541	24,391

		2004		2003	
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Weighted-average assumptions used to determine net periodic benefit cost as of July 1				
7	Discount rate	5.75%	5.75%	7.00%	7.00%
8	Expected return on plan assets	8.00%	8.00%	9.00%	9.00%
9	Rate of compensation increase	4.00%	6.10%	4.00%	6.10%
	Weighted-average assumptions used to determine benefit obligations at end of year				
10	Discount rate	6.00%	6.00%	5.75%	5.75%
11	Rate of compensation increase	4.00%	6.10%	4.00%	6.10%

Combined plan assets

		Target Allocation	Percentage of Plan Assets at June 30	
	Asset category	2005	2004	2003
12	Equity securities	39-85%	62.1%	62.8%
13	Debt securities	15-55%	33.1%	32.6%
14	Real estate	1-5%	4.8%	4.6%
15	Total		100.0%	100.0%

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

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, 2004 and June 30, 2003, was $12,806,510 and $10,949,189, 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. The trusts are invested with the objective of maximizing return, subject to tolerance of reasonable risk.

Risk is reduced through the use of multiple asset classes, high-quality securities and flexible permitted asset allocation within the authorized asset classes. The expected return on assets was derived based on long-term assumptions of inflation, real returns (which are primarily historically based), anticipated value added by the investment manager, and expected average asset class allocations.

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

		2004			2003
		Endowed Ithaca	Medical College	Combined	Combined
	Change in benefit obligation				
1	Benefit obligation at beginning of year	$ 240,411	$ 54,176	$ 294,587	$ 233,412
2	Service cost (benefits earned during the period)	8,397	3,694	12,091	8,716
3	Interest cost	12,548	3,068	15,616	15,512
4	Plan amendments		1,153	1,153	
5	Actuarial (gain)/loss	(36,296)	(5,367)	(41,663)	44,419
6	Benefits paid (outside of trust)	(6,065)	(1,863)	(7,928)	(7,472)
7	Benefit obligation at end of year	218,995	54,861	273,856	294,587
	Change in plan assets				
8	Fair value of plan assets at beginning of year	41,975	15,762	57,737	52,594
9	Actual return on plan assets	7,006	2,858	9,864	12
10	Employer contribution	4,432	1,755	6,187	5,131
11	Fair value of plan assets at end of year	53,413	20,375	73,788	57,737
12	Funded status	(165,582)	(34,486)	(200,068)	(236,850)
13	Unrecognized net transition obligation	24,011	8,787	32,798	36,443
14	Unrecognized prior service cost		1,528	1,528	687
15	Unrecognized net actuarial loss from past experience different than assumed	74,241	15,474	89,715	142,020
16	Prepaid/(accrued) postretirement benefit cost	$ (67,330)	$ (8,697)	$ (76,027)	$ (57,700)
	Components of net periodic postretirement benefit cost				
17	Service cost (benefits earned during the period)	$ 8,397	$ 3,694	$ 12,091	$ 8,716
18	Interest cost	12,548	3,068	15,616	15,512
19	Expected return on plan assets	(3,500)	(1,295)	(4,795)	(4,733)
20	Amortization of initial transition obligation	2,668	976	3,644	3,644
21	Amortization of prior service cost		313	313	184
22	Amortization of net (gain)/loss	4,432	1,141	5,573	3,867
23	Net periodic postretirement benefit cost /(income)	$ 24,545	$ 7,897	$ 32,442	$ 27,190
	Participant contributions (retiree health insurance premiums)				
24	2003	$ 1,284	$ 112	$ 1,396	
25	2004	1,422	120	1,542	
	Estimated future benefit payments (employer paid)				
26	2005	$ 6,927	$ 2,183	$ 9,110	
27	2006	7,611	2,396	10,007	
28	2007	8,323	2,616	10,939	
29	2008	9,023	2,776	11,799	
30	2009	9,637	2,952	12,589	
31	2010-2014	58,968	19,260	78,228	

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

		2004		2003	
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Weighted-average assumptions used to determine net periodic postretirement benefit cost as of July 1				
1	Discount rate	5.75%	5.75%	7.00%	7.00%
2	Expected return on plan assets	8.00%	8.00%	9.00%	9.00%
	Weighted-average assumptions used to determine benefit obligations at end of year				
3	Discount rate	6.00%	6.00%	5.75%	5.75%
	Assumed health care cost trend rates at end of year				
4	Health care cost trend rate assumed for next year	9.00%	9.00%	10.00%	10.00%
5	Ultimate trend rate	5.00%	5.00%	5.00%	5.00%
6	Years to reach ultimate trend rate	4	4	5	5

		2004		2003	
		Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
	Effect of 1 percentage point change in assumption of health care cost trend rate				
	1-Percentage point increase				
7	Effect on total service cost and interest cost	$ 4,823	$ 1,313	$ 3,875	$ 963
8	Effect on accumulated postretirement benefit obligation as of June 30	$ 39,178	$ 7,620	$ 39,268	$ 6,952
	1-Percentage point decrease				
9	Effect on total of service and interest cost	$ (3,714)	$ (1,087)	$ (3,036)	$ (781)
10	Effect on accumulated postretirement benefit obligation as of June 30	$ (31,241)	$ (6,615)	$ (31,732)	$ (5,827)

Combined plan assets

		Target Allocation	Percentage of Plan Assets at June 30	
	Asset category	2005	2004	2003
11	Equity securities	39-85%	72.4%	68.0%
12	Debt securities	15-55%	27.6%	32.0%
13	Real estate	0-5%	0.0%	0.0%
14	Total		100.0%	100.0%

Tables 10A and 10B set forth the funded status and asset allocations of the plans as of June 30, 2004 and June 30, 2003, the components of net periodic postretirement benefit costs, and the assumptions used in accounting for the plans during 2004 and 2003. The accrued postretirement benefit cost shown in Table 10A is $18,327,000 of current-year unfunded cost plus $57,700,000 of accumulated prior-year unfunded cost.

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was passed. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit at least actuarially equivalent to Medicare Part D. Due to uncertainties in determining the impact of the Act on the accumulated postretirement obligation and net periodic postretirement benefit cost, the consolidated financial statements do not reflect the Act's effect on the university's postretirement plans. Upon resolution of such uncertainties, the postretirement plans will recognize the effects of the Act.

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 $136,909,000 for fiscal year 2003-04, and $132,085,000 for fiscal year 2002-03.

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 $22,432,772 and $18,860,379 for fiscal years 2003-04 and 2002-03, respectively, is classified as Instruction expense.

9. SUBSEQUENT EVENTS AND CONTINGENT LIABILITIES

On August 18, 2004, the university formalized its intention to purchase the Southtown residential building on Roosevelt Island in New York City (referred to in Note 6). The purchase price is equal to the present value of the lease obligation and will be financed with tax-exempt commercial paper and gifts to the university.

On July 22, 2004, the university signed a letter of intent to purchase four floors in a second Southtown building on Roosevelt Island, yet to be constructed. The letter of intent details the plan to purchase the four floors of the building for approximately $23 million. Construction began in August 2004, with occupancy expected in September 2006.

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 be determined currently, 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	**2004**	**2003**
1	Instruction	$ 423,480	$ 27,754	$ 451,234	$ 422,742
2	Research	438,687	29,130	467,817	448,060
3	Public service	100,539	3,112	103,651	100,376
4	Academic support	150,182	33,456	183,638	162,341
5	Student services	86,354	10,027	96,381	93,326
6	Medical services	350,567	3,426	353,993	333,841
7	Institutional support	178,002	14,601	192,603	169,670
8	Enterprises and subsidiaries	158,901	24,242	183,143	170,286
9	Total expenses and deductions	$ 1,886,712	$ 145,748	$ 2,032,460	$ 1,900,642

ADMINISTRATION

JULY 1, 2004

UNIVERSITY ADMINISTRATION

Jeffrey S. Lehman, *President*

C. Biddy Martin, *Provost*

Antonio M. Gotto, Jr., *Provost for Medical Affairs and Stephen and Suzanne Weiss Dean of the Joan and Sanford I. Weill Medical College*

Kraig K. Adler, *Vice Provost for Life Sciences*

Carolyn N. Ainslie, *Vice President for Planning and Budget*

Thomas W. Bruce, *Vice President for Communications and Media Relations*

Joseph A. Burns, *Vice Provost for the Physical Sciences and Engineering*

Walter I. Cohen, *Vice Provost*

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

Doris Davis, *Associate Provost for Admissions and Enrollment*

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

Francille M. Firebaugh, *Vice Provost for Land Grant Affairs and Special Assistant to the President*

Robert L. Harris, Jr., *Vice Provost for Diversity and Faculty Development*

Kent L. Hubbell, *Robert W. and Elizabeth C. Staley Dean of Students*

Isaac Kramnick, *Vice Provost for Undergraduate Education*

Polley Ann McClure, *Vice President for Information Technologies*

Vanda B. McMurtry, *Vice President for Government and Community Relations*

James J. Mingle, *University Counsel and Secretary of the Corporation*

Susan H. Murphy, *Vice President for Student and Academic Services*

Mary G. Opperman, *Vice President for Human Resources*

Inge T. Reichenbach, *Vice President for Alumni Affairs and Development*

Robert C. Richardson, *Vice Provost for Research*

Charles Walcott, *Dean of the University Faculty*

ACADEMIC UNITS

College of Agriculture and Life Sciences
Susan A. Henry, *Ronald P. Lynch Dean*

College of Architecture, Art, and Planning
Mohsen Mostafavi, *Dean*

College of Arts and Sciences
G. Peter Lepage, *Harold Tanner Dean*

College of Engineering
W. Kent Fuchs, *Joseph Silbert Dean*

College of Human Ecology
Lisa Staiano-Coico, *Dean*

College of Veterinary Medicine
Donald F. Smith, *Dean*

Graduate School
Alison G. Power, *Dean*

Law School
Stewart J. Schwab, *Dean*

School of Continuing Education and Summer Sessions
Glenn C. Altschuler, *Dean*

School of Hotel Administration
David W. Butler, *Dean*

School of Industrial and Labor Relations
Edward J. Lawler, *Dean*

S. C. Johnson Graduate School of Management, Robert J. Swieringa, *Anne and Elmer Lindseth Dean*

Weill Graduate School of Medical Sciences
David P. Hajjar, *Dean*

Weill Medical College
Antonio M. Gotto Jr., *Stephen and Suzanne Weiss Dean*

Weill Medical College - Qatar
Daniel R. Alonso, *Dean*

Computing and Information Science
Robert L. Constable, *Dean*

Africana Studies and Research Center
Don Ohadike, *Director*

Division of Nutritional Sciences
Cutberto Garza, *Director*

Cornell University Library
Sarah E. Thomas, *Carl A. Kroch University Librarian*

BOARD OF TRUSTEES AND TRUSTEE FELLOWS JULY 1, 2004

The Cornell University Annual Financial Report is produced by:

The Division of Financial Affairs
Cornell University
341 Pine Tree Road
Ithaca, New York 14850-2820
dfa-comm@cornell.edu
http://www.dfa.cornell.edu
607/255-6240

Additional copies of this report are available at:
http://www.accounting.cornell.edu/View_Annual_Reports.cfm

Cover photo courtesy of Cornell University Photography.

1004 1,000