

CORNELL UNIVERSITY

OMB Circular A-133 Audit Reports

June 30, 2003

(With Independent Auditors' Report Thereon)

CORNELL UNIVERSITY

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**Independent Auditors' Report on Financial Statements and Supplementary
Schedule of Expenditures of Federal Awards**

The Board of Trustees
Cornell University:

We have audited the accompanying statement of financial position of Cornell University as of June 30, 2003, 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 2002 financial statements and, in our report dated September 10, 2002, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2003, on our consideration of Cornell University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

September 9, 2003
Rochester, New York

STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2003 (IN THOUSANDS)

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2002)

	General Operations	Physical Capital	Financial Capital	2003 Total	2002 Total
Assets					
1 Cash and cash equivalents (note 2)	\$ 36,546	\$ 37,609	\$ 25,703	\$ 99,858	\$ 107,422
2 Collateral for securities loaned (note 2)			205,238	205,238	86,599
3 Investments (note 2)	529,958	81,004	3,012,004	3,622,966	3,549,764
4 Accounts receivable, net (note 3)					
5 Government	45,295			45,295	43,925
6 Patient	57,065			57,065	60,035
7 Contributions	207,541	114,659	59,870	382,070	468,220
8 Other	79,113	4,702	1,859	85,674	83,368
9 Inventories and deferred charges	35,096	3,763		38,859	37,443
10 Student loans receivable (note 3C)	52,005		17,745	69,750	72,998
11 Land, buildings, and equipment, net (note 5)		1,583,491		1,583,491	1,512,469
12 Funds held in trust by others (note 1D)			93,818	93,818	92,681
13 Advances for capital investment	22,628	(22,628)			
14 Total assets	<u>\$1,065,247</u>	<u>\$1,802,600</u>	<u>\$3,416,237</u>	<u>\$6,284,084</u>	<u>\$6,114,924</u>
Liabilities					
15 Accounts payable and accrued expenses	\$ 163,259	\$ 27,000		\$ 190,259	\$ 159,380
16 Securities loan agreements payable (note 2)			\$ 205,238	205,238	86,599
17 Deposits and deferred revenues	57,639	1,101		58,740	35,966
18 Deferred benefits (note 7)	107,607		47,278	154,885	129,974
19 Funds held in trust for others (note 1E)			62,107	62,107	74,165
20 Living trust obligations (note 1C)			71,692	71,692	66,449
21 Bonds, mortgages, & notes payable (note 6)	19,173	475,575		494,748	518,648
22 Refundable government grants	43,477			43,477	43,518
23 Total liabilities	<u>391,155</u>	<u>503,676</u>	<u>386,315</u>	<u>1,281,146</u>	<u>1,114,699</u>
Net Assets (note 1B)					
24 Unrestricted					
25 Available for operations	319,705			319,705	292,438
26 Designated for student loans	5,091			5,091	4,822
27 Designated for plant		155,659		155,659	165,986
28 Net investment in plant		956,311		956,311	923,075
29 Appreciation on true endowments			874,127	874,127	970,199
30 Funds functioning as endowments			736,099	736,099	724,311
31 Temporarily restricted					
32 Available for operations	349,296			349,296	361,583
33 Designated for plant		186,954		186,954	217,552
34 Funds functioning as endowments			81,323	81,323	67,197
35 Funds subject to living trust agreements			51,916	51,916	51,281
36 Funds held in trust			35,681	35,681	33,570
37 Permanently restricted					
38 Student loan funds			29,995	29,995	28,545
39 True endowments			1,077,313	1,077,313	1,024,567
40 Funds subject to living trust agreements			33,370	33,370	34,789
41 Funds held in trust			110,098	110,098	100,310
42 Total net assets	<u>674,092</u>	<u>1,298,924</u>	<u>3,029,922</u>	<u>5,002,938</u>	<u>5,000,225</u>
43 Total liabilities and net assets	<u>\$1,065,247</u>	<u>\$1,802,600</u>	<u>\$3,416,237</u>	<u>\$6,284,084</u>	<u>\$6,114,924</u>

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

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2002)

	General Operations		Physical Capital	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Revenues and other additions				
1 Tuition and fees	\$ 493,217			
2 Scholarship allowance	(144,017)			
3 Net tuition and fees	349,200			
4 State appropriations	145,747		\$ 12,961	
5 Federal appropriations	18,770			
6 Federal grants and contracts	397,244			
7 State and local grants and contracts	23,979			
8 Private grants and contracts	35,672			
9 Contributions	95,549	\$ 35,669	3,206	\$ 8,044
10 Interest and dividends	36,733	3,678	1,597	1,231
11 Net realized gain (loss) on investments	(407)	5		
12 Net unrealized gain (loss) on investments	33,792		(15,700)	
13 Medical Physicians' Organization	306,469			
14 Enterprises and subsidiaries	143,358			
15 Educational departments	60,549		4	
16 Other sources	55,945	(1,475)	2,598	448
17 Total revenues	1,702,600	37,877	4,666	9,723
18 Investment payout	131,323	14,268	553	127
19 Net assets released from restrictions	67,178	(67,178)	920	(920)
20 Capital investments (withdrawals)	(101,420)	2,746	145,267	(39,528)
21 Total revenues and other additions	1,799,681	(12,287)	151,406	(30,598)
Expenses (Note 8)				
22 Salaries and wages	973,240			
23 Employee benefits	217,535			
24 Purchased services	129,258			
25 Supplies and general	335,959			
26 Utilities, rents, and taxes	94,154			
27 Interest expense	21,999			
28 Depreciation			123,261	
29 Other			5,236	
30 Total expenses	1,772,145		128,497	
31 Change in net assets	27,536	(12,287)	22,909	(30,598)
32 Total net assets, beginning of year	297,260	361,583	1,089,061	217,552
33 Total net assets, end of year	\$ 324,796	\$ 349,296	\$1,111,970	\$ 186,954

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

Unrestricted	Financial Capital		2003 Total	2002 Total	
	Temporarily Restricted	Permanently Restricted			
			\$ 493,217	\$ 462,830	1
			(144,017)	(133,166)	2
			349,200	329,664	3
			158,708	165,857	4
			18,770	19,495	5
			397,244	329,884	6
			23,979	22,560	7
			35,672	33,976	8
\$ 21,593	\$ 18,043	\$ 40,502	222,606	437,373	9
15,556	16,887	15,473	91,155	119,065	10
(90,896)	1,444	5,141	(84,713)	(109,531)	11
107,261	1,157	(451)	126,059	(224,222)	12
			306,469	283,090	13
			143,358	137,075	14
			60,553	59,696	15
503	(1,318)	(2,406)	54,295	62,124	16
54,017	36,213	58,259	1,903,355	1,666,106	17
(131,876)	(14,395)				18
					19
(6,425)	(4,946)	4,306			20
(84,284)	16,872	62,565	1,903,355	1,666,106	21
			973,240	906,138	22
			217,535	192,029	23
			129,258	103,845	24
			335,959	326,907	25
			94,154	88,573	26
			21,999	23,088	27
			123,261	120,329	28
			5,236	15,465	29
			1,900,642	1,776,374	30
(84,284)	16,872	62,565	2,713	(110,268)	31
1,694,510	152,048	1,188,211	5,000,225	5,110,493	32
\$1,610,226	\$ 168,920	\$1,250,776	\$5,002,938	\$5,000,225	33

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2002)

	2003	2002
Cash flows from operating activities		
1 Increase/(decrease) in net assets	\$ 2,713	(\$ 110,268)
2 Adjustments to reconcile change in net assets to net cash provided by operating activities		
3 Nonoperating items		
4 Contributions for physical and financial capital	(90,228)	(184,085)
5 Net realized (gains)/losses on investments	84,713	109,531
6 Income restricted for financial capital	(13,067)	(22,453)
7 Noncash items		
8 Depreciation	123,261	120,329
9 Net unrealized (gains)/losses on investments	(126,059)	224,222
10 Loss on equipment disposals	2,628	9,853
11 Provision for receivable allowances	1,213	21,422
12 Accretion of bond discount	973	914
13 Other noncash items	1,705	1,167
14 Change in assets and liabilities		
15 Accounts receivable	85,750	(113,206)
16 Inventories and deferred charges	(3,113)	3,750
17 Accounts payable and accrued expenses	30,879	8,384
18 Deposits and deferred revenues	22,774	4,801
19 Deferred benefits	24,911	9,897
20 Refundable government grants	(41)	1,044
21 Net cash provided by operating activities	<u>149,012</u>	<u>85,302</u>
Cash flows from investing activities		
22 Proceeds from the sale of investments	2,929,806	3,635,651
23 Purchase of investments	(2,961,662)	(3,629,058)
24 Acquisition of land, buildings, and equipment (net)	(194,555)	(180,892)
25 Student loans granted	(13,888)	(11,596)
26 Student loans repaid	15,608	13,766
27 Change in funds held in trust for others	(12,058)	(29,751)
28 Net cash used by investing activities	<u>(236,749)</u>	<u>(201,880)</u>
Cash flow from financing activities		
29 Resources for long-term purposes		
30 Contributions restricted to		
31 Investment in true endowment	37,642	84,642
32 Investment in physical capital	8,894	54,507
33 Investment subject to living trust agreements	4,097	7,246
34 Income restricted for financial capital	13,067	22,453
35 Contributions designated for funds functioning as endowments	37,239	28,282
36 Other financing activities		
37 Principal payments of bonds, mortgages, and notes payable	(25,146)	(90,597)
38 Proceeds from issuance of bonds, mortgages, and notes payable	274	75,730
39 Change in obligations under living trust agreements	4,106	(33,909)
40 Net cash provided by financing activities	<u>80,173</u>	<u>148,354</u>
41 Net change in cash and cash equivalents	(7,564)	31,776
42 Cash and cash equivalents, beginning of year	107,422	75,646
43 Cash and cash equivalents, end of year	<u>\$ 99,858</u>	<u>\$ 107,422</u>

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

1. SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Organization

From a fiscal viewpoint, Cornell University consists of three major organizational units: Endowed Ithaca, which includes the endowed colleges, the central university administration, and the enterprise and service operations for the Ithaca campus; Contract Colleges at Ithaca (colleges operated by Cornell on behalf of New York State); and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences (Medical College) in New York City. All three units are subject to the common administrative authority and control of the Cornell University Board of Trustees and operate as self-supporting entities (net assets relating to one of the units are generally not available to the other units); the only legal limitations pertain to certain donor-restricted funds and funds of the contract colleges. Specifically, the laws establishing the contract colleges at Ithaca prohibit other segments of the university from using funds attributable to those colleges. Except as specifically required by law, the contract and endowed colleges at Ithaca are, to the extent practicable, governed by common management principles and policies determined within the private discretion of Cornell University. In addition to the three major organizational units, seven subsidiary corporations are included in the financial statements. All significant 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, 2003 and June 30, 2002.

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, 2003, the university's true endowment net assets consisted of approximately 15 percent for unrestricted purposes, 24 percent for student aid, 41 percent for instruction, and 20 percent for other donor-specified purposes. On June 30, 2002, the breakdown was 15 percent for unrestricted purposes, 21 percent for student aid, 42 percent for instruction, and 22 percent for other donor-specified purposes.

C. Living Trust Agreements

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
1 Net assets at June 30, 2001	\$3,389,220	\$ 643,428	\$1,077,845	\$5,110,493
2002 change in net assets:				
2 General operations	25,230	45,989		71,219
3 Physical capital	62,093	26,595		88,688
4 Financial capital	(395,712)	15,171	110,366	(270,175)
5 Total change in net assets	(308,389)	87,755	110,366	(110,268)
6 Net assets at June 30, 2002	\$3,080,831	\$ 731,183	\$1,188,211	\$5,000,225
2003 change in net assets:				
7 General operations	27,536	(12,287)		15,249
8 Physical capital	22,909	(30,598)		(7,689)
9 Financial capital	(84,284)	16,872	62,565	(4,847)
10 Total change in net assets	(33,839)	(26,013)	62,565	2,713
11 Net assets at June 30, 2003	\$3,046,992	\$ 705,170	\$1,250,776	\$5,002,938

TABLE 2. COMPOSITION OF FINANCIAL CAPITAL NET ASSETS AT JUNE 30, 2003 (IN THOUSANDS)
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2002)

	Net Asset Classification			2003	2002
	Unrestricted	Temporarily Restricted	Permanently Restricted		
1 True endowment and unspent earnings, including contributions receivable of \$59,870	\$ 874,127		\$1,077,313	\$1,951,440	\$1,994,766
2 Functioning as endowment	736,099	\$ 81,323		817,422	791,508
3 Funds held in trust		35,681	110,098	145,779	133,880
4 Total university endowment	1,610,226	117,004	1,187,411	2,914,641	2,920,154
5 Living trust funds		51,916	33,370	85,286	86,070
6 Loan funds			29,995	29,995	28,545
7 Total	<u>\$1,610,226</u>	<u>\$ 168,920</u>	<u>\$1,250,776</u>	<u>\$3,029,922</u>	<u>\$3,034,769</u>

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 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 2002-03 and 2001-02 were \$276,396 and \$7,299,457, 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 \$72,862,624, and \$75,575,880 at June 30, 2003 and June 30, 2002, 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 \$51,960,992 and \$41,199,000 at June 30, 2003 and June 30, 2002, 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.

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

	2003	2002
1 Cash and cash equivalent holdings	(\$ 22,912)	\$ 78,421
Equity Securities		
2 Domestic	1,306,519	1,337,219
3 International	274,975	201,243
Debt Securities		
4 Domestic - government	614,328	389,836
5 Domestic - corporate debt securities	275,032	355,138
6 International - governments	55,195	44,163
7 International - corporate	29,775	67,451
8 Mortgages and other asset-backed securities	78,540	156,169
Other Investments		
9 Limited partnerships	951,058	860,440
10 Real Estate	27,217	24,510
11 Other	33,239	35,174
12 Total Investments	<u>\$3,622,966</u>	<u>\$3,549,764</u>

H. Derivative Instruments and Hedging Activities

The university records the fair value of its derivatives related to its investment securities within the applicable portfolio. The change in the fair value of those derivatives is included in 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 (loss) on investments in the *Statement of Activities*, in the Physical Capital category.

I. Use of Estimates

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

J. Comparative Financial Information

The *Statement of Activities* includes prior-year summarized information in total rather than 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, 2002 from which the summarized information was derived.

K. Reclassifications

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

L. Income Taxes

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

2. CASH AND INVESTMENTS**A. General Information**

Investment policy of the university is established by the Investment Committee of the Board of Trustees. University investments are stated at fair value. The value of fixed-income and publicly traded equity securities is based upon quoted market prices and exchange rates, if applicable. Private equities, real estate partnerships, and certain other nonmarketable securities are valued using current information obtained from the general partner or investment manager for the respective funds. Fees paid to managers in fiscal years 2002-03 and 2001-02 for investing the university's portfolios amounted to approximately \$5,900,000 and \$6,900,000, respectively. The composition of investments at June 30, 2003 and June 30, 2002 are shown in Table 3A.

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

	2003	2002
1 Working capital	\$ 11,827	1,531
2 Intermediate-term (resources for spending in less than 3 years)	508,790	418,228
3 Long-term investment pool (resources held for 3 years or longer)	2,720,790	2,750,401
4 Separately invested securities	317,349	287,843
5 Life income fund pools	20,900	21,435
6 DASNY holdings	39,923	66,585
7 Other purposes of investment	3,387	3,741
8 Total Investments	<u>\$3,622,966</u>	<u>\$3,549,764</u>

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 \$199,323,136 and \$82,780,566 at June 30, 2003 and June 30, 2002, 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 \$205,238,322 and \$86,598,488 and an offsetting liability for the return of the collateral in Financial Capital on the *Statement of Financial Position* at June 30, 2003 and June 30, 2002, 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 university's working capital and intermediate-term funds are invested for the production of income and capital appreciation on principal anticipated to be expended within three years.

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

The pool is divided into units that represent ownership. These units are determined based on the date of purchase and market value per unit. At June 30, 2003 and June 30, 2002, the market prices per unit were \$42.65 and \$44.95, respectively.

The long-term investment pool was invested, as of June 30, 2003, as a balanced fund consisting of 61 percent marketable-equity securities, 11 percent real estate and private-equity investments, and 28 percent bonds and fixed-income investments. At June 30, 2002, the pool consisted of 57 percent marketable-equity securities, 12 percent real estate and private-equity investments, and 31 percent bonds and fixed-income investments. The objective is to achieve a total return, net of expenses, of at least 5 percent in excess of inflation, as measured by the Consumer Price Index, over rolling five-year periods. Table 4 summarizes certain information about the long-term investment pool.

TABLE 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	\$2,720,790	\$2,502,861	\$ 217,929	\$42.65	63,791,217
2 Beginning of year	\$2,750,401	\$2,604,569	\$ 145,832	\$44.95	61,184,733
3 Unrealized net gain for year			\$ 72,097		
4 Change in interest receivable for year			2,292		
5 Realized net gain/(loss) for year			(97,909)		
6 Net gain/(loss) for year			(\$ 23,520)		

The university has a total return policy. Under this policy, a distribution is provided from the pool that is independent of the cash yield and investment changes occurring in a given year. This insulates investment policy from budgetary pressures, and insulates the distribution from fluctuations in capital markets. The total return of the long-term investment pool was a gain of \$29,593,620 (1.90 percent) for fiscal year 2002-03. The total return consisted of \$53,113,715 (3.41 percent) of income and \$23,520,095 (-1.51 percent) of depreciation.

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

For the year ended June 30, 2003, distributions for investment payout were \$167,553,378 (\$2.70 per unit), of which \$146,271,647 supported general operations and physical capital. The remaining distribution of \$21,281,731 was returned to principal, or went to funds held in trust for others, shown in the accompanying *Statement of Financial Position*. The distribution for 2003 was comprised of \$35,634,933 in net investment income and \$131,918,445 paid from prior year accumulated gains. For the fiscal year ended June 30, 2002, the investment payout was \$160,549,571 (\$2.70 per unit). The distribution for 2002 was comprised of \$48,908,006 in net investment income and \$111,641,565 paid from prior year accumulated gains.

At June 30, 2003, 1,469 of 4,680 true endowment funds invested in the long-term investment pool had market values below book values by \$47,840,796, on a total book value of \$387,644,017. 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.

D. Other Investments

Under the terms of certain limited partnership agreements, the university is obligated to periodically advance additional funding for private-equity and real estate investments. At June 30, 2003 and June 30, 2002, the university had commitments of approximately \$335,806,000 and \$394,147,000, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The university maintains sufficient liquidity in its investment portfolio to cover such calls.

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

3. ACCOUNTS AND LOANS RECEIVABLE

A. Patient Accounts and Other

Patient accounts receivable at June 30, 2003 and June 30, 2002, are net of provisions for allowances and doubtful accounts of \$58,866,618 and \$60,257,246, respectively. Other accounts receivable, including student accounts, at June 30, 2003 and June 30, 2002 are

TABLE 5. CONTRIBUTIONS RECEIVABLE (IN THOUSANDS)

	2003	2002
Contributions expected to be realized		
1 In one year or less	\$ 92,735	\$ 111,432
2 Between one year and five years	288,196	393,747
3 More than five years	<u>138,335</u>	<u>131,075</u>
4 Gross contributions receivable	519,266	636,254
5 Discount	(117,087)	(143,391)
6 Allowance	<u>(20,109)</u>	<u>(24,643)</u>
7 Total discount and allowance	(137,196)	(168,034)
8 Net contributions receivable	<u>\$ 382,070</u>	<u>\$ 468,220</u>

net of allowances for doubtful accounts of \$1,701,680 and \$1,565,779, 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 \$382,070,000 and \$468,220,000, representing the present value of future cash flows, are recorded as receivables at June 30, 2003 and June 30, 2002, respectively. The corresponding revenue is assigned to the appropriate net asset category in the year the promise is received. The face value, discount (7.00 percent for both fiscal years 2002-03 and 2001-02), and allowance for contributions receivable are shown in Table 5. Conditional promises are recorded when donor stipulations are substantially met. At June 30, 2003 and 2002, conditional promises and donor intentions not reflected in the financial statements were approximately \$114,060,000 and \$107,042,000, respectively. Expenses related to fund-raising activities amounted to approximately \$24,667,000 and \$21,425,000 for fiscal years 2002-03 and 2001-02, respectively.

C. Student Loans

Student loans receivable at June 30, 2003 and June 30, 2002, are reported net of allowances for doubtful loans of \$8,439,983 and \$7,332,306, 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: \$10,138,715 and \$10,256,099 at June 30, 2003 and June 30, 2002, respectively, of financial capital; and \$389,541 and \$1,079,935, 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 \$106,281 and \$105,000 at June 30, 2003 and June 30, 2002, respectively.

Physical capital assets include cash and United States government obligations of \$36,682,363, and \$26,854,200 at June 30, 2003 and June 30, 2002, respectively, held by DASNY, that will be used primarily for the retirement of debt at a future time. In addition, \$14,586 and \$36,436,510 of bond proceeds were on deposit for future project expenditures at June 30, 2003 and 2002, respectively.

Student loan assets in general operations include \$3,225,883 and \$3,294,315 at June 30, 2003 and June 30, 2002, respectively, on deposit with DASNY that are available for the retirement of debt at a future time.

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

	Book value at June 30, 2002	Additions	Disposals and Closed Projects	Book value at June 30, 2003
1 Land, buildings, and improvements	\$1,700,180	\$ 97,850	\$ 889	\$1,797,141
2 Furniture, equipment, books, and collections	858,891	83,642	54,660	887,873
3 Construction in progress	137,292	118,805	103,385	152,712
4 Total before accumulated depreciation	2,696,363	\$ 300,297	\$ 158,934	2,837,726
5 Accumulated depreciation	(1,183,894)			(1,254,235)
6 Land, buildings and equipment, net	\$1,512,469			\$1,583,491

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 \$2,356,000 and \$9,408,000 for fiscal years 2002-03 and 2001-02, 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 \$317,759,000 and \$300,545,000 at June 30, 2003 and June 30, 2002, 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 \$23,417,000 and \$25,652,000 at June 30, 2003 and June 30, 2002, respectively.

The university is planning to decommission and retire the Ward Center’s nuclear reactor. A decommissioning plan will be submitted to the Nuclear Regulatory Commission to begin the process of fuel removal and contractor bids. Retirement costs are not available at this time.

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, 2003 and June 30, 2002, 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 2002-03 and 2001-02 was approximately \$21,027,000 and \$22,174,000, 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 \$509,817,000 and \$528,875,000 at June 30, 2003 and June 30, 2002, 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, 2003, 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 \$83,695,000; 2.99 percent on a notional amount of \$84,505,000; 4.52 percent on a notional amount of \$43,070,000; and 4.33 percent on a notional amount of \$15,390,000. Net payments or receipts under the swap agreement are recorded as an

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

	Balance June 30, 2003	Balance June 30, 2002	Interest Rates	Maturity Date	
Plant Funds					
1	Dormitory Authority of the State of New York (DASNY)				
2	Revenue Bond Series				
3	1990B	59,000	59,300	2.26 to 2.57*	2025
4	1993	1,290	1,895	4.90 to 5.10	2005
5	1996	91,795	101,215	4.80 to 5.40	2014
6	2000A	64,505	65,905	2.99	2029
7	2000B	83,695	85,240	4.63	2030
8	Bond Series 1987B	15,150	16,065	11.11	2012
9	DASNY 1993 Pooled Loan Program	1,696	1,828	1.40 to 2.00*	2012
10	Commercial Paper	68,760	68,760	1.00 to 2.99*	2028
11	Industrial Development Agency				
12	2000	7,900	8,695	4.65 to 5.25	2011
13	2002A	43,070	43,225	4.52	2030
14	2002B	15,390	15,390	4.33	2015
15	Student Loan Marketing Association	6,430	6,665	5.75 to 6.50	2019
16	Urban Development Corporation	3,250	3,375	zero	2029
17	Capitalized Leases	13,213	13,600	various	2020
18	Private Foundation Line of Credit	0	5,000	zero	2003
19	Other	431	330	various	2004
20	Total Physical Capital	<u>475,575</u>	<u>496,488</u>		
Student Loan Funds					
21	DASNY Bond 1992 Capital Appreciation	\$ 4,083	\$ 5,129	6.60 to 6.80	2009
22	DASNY Bond 1993 Serial	0	755	4.90	2003
23	DASNY Bond 1993 Capital Appreciation	3,089	2,929	5.25 to 5.50	2007
24	DASNY Bond 1995 Serial	3,890	5,695	5.25 to 5.45	2005
25	DASNY Bond 1995 Capital Appreciation	8,111	7,652	5.70 to 6.15	2011
26	Total General Operations—Student Loans	<u>19,173</u>	<u>22,160</u>		
27	Total Bonds, Mortgages, and Notes Payable	<u>\$ 494,748</u>	<u>\$ 518,648</u>		

* Rates presented are the actual rates paid during fiscal year 2002-03. These rates are variable based on market conditions.

TABLE 8. ANNUAL DEBT SERVICE REQUIREMENTS (IN THOUSANDS)

Year	Annual Installment		
	Principal	Interest	Total
1 2004	\$ 19,447	\$ 22,810	\$ 42,257
2 2005	19,708	21,691	41,399
3 2006	18,946	21,140	40,086
4 2007	19,108	20,112	39,220
5 2008	18,468	19,038	37,506
6 Thereafter	<u>399,071</u>	<u>179,340</u>	<u>578,411</u>
7 Total	<u>\$ 494,748</u>	<u>\$ 284,131</u>	<u>\$ 778,879</u>

adjustment to interest expense. The contractual relationship under these agreements will last until July 1, 2030.

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

7. BENEFIT PLANS

A. Pension Plans

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

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

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

The defined benefit plans' funded status, amounts recognized in the university's *Statement of Financial Position* at June 30, 2003, and assumptions used for calculations are shown in Table 9.

Total pension costs of the Endowed Ithaca and Medical College plans for the year ended June 30, 2003 and June 30, 2002, amounted to \$51,247,423 and \$47,121,663, respectively.

Employees of the contract colleges are covered under the New York State pension plan. Contributions to the state retirement system and other employee benefit costs are paid directly by the state. The amount of the direct payments applicable to the university as revenue and expenditures is not currently determinable and is not included in the *Financial Statements*. The university reimburses the state for employee benefit costs on certain salaries, principally those associated with externally sponsored programs. The amount reimbursed to the state during the years ended June 30, 2003 and June 30, 2002, was \$10,949,189 and \$9,893,852, 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.

Tables 10A and 10B set forth the funded status of the plans as of June 30, 2003 and June 30, 2002, the components of net periodic postretirement benefit costs for 2003 and 2002, and the assumptions used in accounting for the plans during 2003 and 2002. The accrued postretirement benefit cost shown in Table 10A is \$14,587,000 of current-year unfunded cost plus \$43,113,000 of accumulated prior-year unfunded cost.

C. Postemployment Benefits

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

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

			<u>2003</u>	<u>2002</u>
	Endowed Ithaca*	Medical College	Combined	Combined
Change in benefit obligation				
1	\$ 20,032	\$ 30,258	\$ 50,290	\$ 50,951
2		1,858	1,858	1,654
3	1,321	2,099	3,420	3,426
4	1,870	4,084	5,954	(1,205)
5	(2,046)	(1,872)	(3,918)	(4,536)
6	<u>21,177</u>	<u>36,427</u>	<u>57,604</u>	<u>50,290</u>
Change in plan assets				
7	28,798	31,179	59,977	70,279
8	683	1,020	1,703	(5,766)
9	(2,046)	(1,872)	(3,918)	(4,536)
10	<u>27,435</u>	<u>30,327</u>	<u>57,762</u>	<u>59,977</u>
11	6,258	(6,100)	158	9,687
12		7	7	115
13	9,261	6,544	15,805	6,746
14	<u>\$ 15,519</u>	<u>\$ 451</u>	<u>\$ 15,970</u>	<u>\$ 16,548</u>
Net periodic pension cost components				
15		\$ 1,858	\$ 1,858	\$ 1,654
16	\$ 1,321	2,099	3,420	3,427
17	(2,505)	(2,577)	(5,082)	(6,017)
18	Net amortization and deferral of:			
19				206
20		108	108	108
21	274		274	(154)
22	<u>(\$ 910)</u>	<u>\$ 1,488</u>	<u>\$ 578</u>	<u>(\$ 776)</u>

	<u>2003</u>		<u>2002</u>	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
23	5.75%	5.75%	7.00%	7.00%
24	9.00%	9.00%	9.00%	9.00%
25	4.00%	6.10%	4.00%	6.10%

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

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

	2003			2002	
	Endowed Ithaca	Medical College	Combined	Combined	
Change in benefit obligation					
1	Benefit obligation at beginning of year	\$ 194,413	\$ 38,999	\$ 233,412	\$ 187,826
2	Service costs (benefits earned during the period)	6,206	2,510	8,716	6,908
3	Interest cost on projected benefit obligation	12,565	2,947	15,512	13,806
4	Actuarial loss	32,987	11,432	44,419	31,909
5	Benefits paid (outside of trust)	(5,760)	(1,712)	(7,472)	(7,037)
6	Benefit obligation at end of year	<u>240,411</u>	<u>54,176</u>	<u>294,587</u>	<u>233,412</u>
Change in plan assets					
7	Fair value of plan assets at beginning of year	37,809	14,785	52,594	52,814
8	Return on plan assets	(65)	77	12	(5,109)
9	Employer contribution	4,231	900	5,131	4,889
10	Fair value of plan assets at end of year	<u>41,975</u>	<u>15,762</u>	<u>57,737</u>	<u>52,594</u>
11	Excess/(deficiency) of plan assets over projected benefit obligation	(198,436)	(38,414)	(236,850)	(180,818)
12	Unrecognized obligation	26,679	9,764	36,443	40,088
13	Unrecognized prior service costs		687	687	871
14	Unrecognized net loss from past experience different than assumed	118,475	23,545	142,020	96,746
15	Prepaid/(accrued) postretirement benefit cost	<u>(\$ 53,282)</u>	<u>(\$ 4,418)</u>	<u>(\$ 57,700)</u>	<u>(\$ 43,113)</u>
Net periodic postretirement benefit cost components					
16	Service costs (benefits during the period)	\$ 6,206	\$ 2,510	\$ 8,716	\$ 6,908
17	Interest cost on projected benefit obligation	12,565	2,947	15,512	13,806
18	Expected return on plan assets	(3,403)	(1,330)	(4,733)	(4,753)
19	Net amortization and deferral of:				
20	Initial transition obligation	2,668	976	3,644	3,644
21	Prior service cost		184	184	184
22	Net loss	3,115	752	3,867	2,550
23	Net periodic postretirement benefit cost	<u>\$ 21,151</u>	<u>\$ 6,039</u>	<u>\$ 27,190</u>	<u>\$ 22,339</u>

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 \$132,085,000 for fiscal year 2002-03, and \$133,890,000 for fiscal year 2001-02.

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 \$18,860,379 and \$16,891,196 for fiscal years 2002-03 and 2001-02, respectively, is classified as Instruction expense.

9. SUBSEQUENT EVENTS AND CONTINGENT LIABILITIES

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

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

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

CONTINUED

	2003		2002	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
Assumptions used in accounting for the plans as of July 1				
1 Discount rate	5.75%	5.75%	7.00%	7.00%
2 Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
3 Health care cost trend rate - initial	10.00%	10.00%	10.00%	10.00%
4 Health care cost trend rate - final	5.00%	5.00%	5.00%	5.00%
5 Years to reach final	5	5	6	6
	2003		2002	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
Effect of 1 percentage point change in assumption of Health Care Cost trend rate				
6 1-Percentage point increase				
7 Effect on total service cost and interest cost components	\$ 3,875	\$ 963	\$ 3,514	\$ 592
8 Effect on accumulated postretirement benefit obligation as of June 30	\$ 39,268	\$ 6,952	\$ 31,594	\$ 4,776
9 1-Percentage point decrease				
10 Effect on total service cost and interest cost components	(\$ 3,036)	(\$ 781)	(\$ 2,755)	(\$ 484)
11 Effect on accumulated postretirement benefit obligation as of June 30	(\$ 31,732)	(\$ 5,827)	(\$ 25,541)	(\$ 4,013)

TABLE 11. FUNCTIONAL EXPENSES (IN THOUSANDS)

	General	Physical	2003	2002
	Operations	Capital		
1 Instruction	\$ 398,191	\$ 24,551	\$ 422,742	\$ 396,872
2 Research	422,533	25,527	448,060	414,674
3 Public service	97,802	2,574	100,376	99,134
4 Academic support	133,195	29,146	162,341	149,979
5 Student services	84,107	9,219	93,326	93,702
6 Medical services	330,780	3,061	333,841	294,078
7 Institutional support	156,925	12,745	169,670	168,778
8 Enterprises and subsidiaries	148,612	21,674	170,286	159,157
9 Total expenses and deductions	<u>\$1,772,145</u>	<u>\$ 128,497</u>	<u>\$1,900,642</u>	<u>\$1,776,374</u>

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Public Service:				
Department of Agriculture:				
Cooperative Extension Service	10.500	\$ 13,980,091	161,169	14,141,260
Total for Department of Agriculture		<u>13,980,091</u>	<u>161,169</u>	<u>14,141,260</u>
Public Service total		<u>13,980,091</u>	<u>161,169</u>	<u>14,141,260</u>
Research and Development:				
Department of Agriculture:				
Department of Agriculture	10.000	220,069	194,970	415,039
Agricultural Research – Basic and Applied Research	10.001	3,410,752	120,810	3,531,562
Plant and Animal Disease, Pest Control, and Animal Care	10.025	95,930	50,000	145,930
Commodity Loans and Loan Deficiency Payments	10.051	—	60,033	60,033
Forestry Incentives Program	10.064	30,267	—	30,267
Inspection Grading and Standardization	10.162	125,504	—	125,504
Market Protection and Promotions	10.163	20,000	—	20,000
Grants for Agricultural Research, Special Research Grants	10.200	4,845,089	476,816	5,321,905
Cooperative Forestry Research	10.202	173,597	—	173,597
Payments to Agricultural Experiment Stations under Hatch Act	10.203	4,606,090	—	4,606,090
Grants for Agricultural Research – Competitive Research Grants	10.206	4,816,198	49,715	4,865,913
Animal Health and Disease Research	10.207	246,623	—	246,623
Sustainable Agriculture Research and Education	10.215	—	44,351	44,351
Higher Education and Challenge Grant	10.217	—	(365)	(365)
Biotechnology Risk Assessment Research	10.219	117,315	—	117,315
Higher Education Multicultural Scholars Program	10.220	30,609	—	30,609
Fund for Rural America: Research, Education and Extension				
Activities	10.224	1,082,175	4,322	1,086,497
Agricultural and Rural Economic Research	10.250	—	19,953	19,953
Initiative for Future Agriculture and Food Systems	10.302	1,518,759	430,753	1,949,512
Integrated Programs	10.303	1,250,630	235,245	1,485,875
Technical Assistance to Cooperatives	10.350	1,020	—	1,020
Commodity Supplemental Food Program	10.565	—	48,080	48,080
Emergency Food Assistance Program (Administrative Costs)	10.568	—	25,975	25,975
Emergency Food Assistance Program (Food Commodities)	10.569	—	171,165	171,165
Forestry Research	10.652	—	2,395	2,395
Cooperative Forestry Assistance	10.664	115,840	386	116,226
Soil Survey	10.903	11,000	—	11,000
Snow Survey and Water Supply Forecasting	10.907	33,000	—	33,000
Farmland Protection Program	10.913	201,563	—	201,563
Scientific Cooperation and Research	10.961	27,796	—	27,796
Total for Department of Agriculture		<u>22,979,826</u>	<u>1,934,604</u>	<u>24,914,430</u>
Department of Commerce:				
Census Intergovernmental Services	11.004	62,455	—	62,455
ITA Special Projects	11.113	—	486,430	486,430
Grants for Public Works and Economic Development Facilities	11.300	582,739	—	582,739
Economic Development – Technical Assistance	11.303	—	(60)	(60)
Sea Grant Support	11.417	—	232,146	232,146
Fisheries Development and Utilization Research and Development	11.427	60,842	—	60,842
Climate and Atmospheric Research	11.431	203,659	40,053	243,712
Office of Oceanic and Atmospheric Research (OAR) Joint and				
Cooperative Institutes	11.432	—	261,648	261,648
Marine Fisheries Initiative	11.433	22,185	9,900	32,085
Cooperative Fishery Statistics	11.434	31,616	—	31,616
Applied Meteorological Research	11.468	144,993	—	144,993
Unallied Science Program	11.472	—	414,903	414,903
Center for Sponsored Coastal Ocean Research – Coastal				
Ocean Program	11.478	31,767	—	31,767
Measurement and Engineering Research Standards	11.609	3,987	50,000	53,987
Advanced Technology Program	11.612	—	10,000	10,000
Total for Department of Commerce		<u>1,144,243</u>	<u>1,505,020</u>	<u>2,649,263</u>

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Department of Defense:				
Department of Defense	12.000	\$ 591,505	1,039,416	1,630,921
Aquatic Plant Control	12.100	128,874	—	128,874
Collaborative Research and Development	12.114	—	71,503	71,503
Basic and Applied Scientific Research	12.300	5,931,874	618,718	6,550,592
Military Construction, National Guard	12.400	1,109	—	1,109
Military Medical Research and Development	12.420	421,751	—	421,751
Basic Scientific Research	12.431	1,864,493	512,460	2,376,953
Basic, Applied and Advanced Research in Science and Engineering	12.630	1,168,802	38,247	1,207,049
Air Force Defense Research Sciences Program	12.800	6,193,426	907,460	7,100,886
Mathematical Sciences Grants Program	12.901	53,972	—	53,972
Research and Technology Development	12.910	5,780,812	1,173,419	6,954,231
Total for Department of Defense		22,136,618	4,361,223	26,497,841
Department of Housing and Urban Development:				
Community Outreach Partnership Center Program	14.511	26,915	—	26,915
Early Doctoral Student Research Grants	14.517	7,890	—	7,890
Total for Department of Housing and Urban Development		34,805	—	34,805
Department of the Interior:				
Department of Interior	15.000	16,312	113,316	129,628
Fish and Wildlife Management Assistance	15.608	62,583	26,298	88,881
Cooperative Endangered Species Conservation Fund	15.615	—	945	945
Wildlife Conservation and Appreciation	15.617	—	362,424	362,424
African Elephant Conservation	15.620	52,816	—	52,816
Assistance to State Water Resources Research Institutes	15.805	259,283	—	259,283
Geological Survey—Research and Data Acquisition	15.808	549,923	—	549,923
Historic Preservation Fund Grants-In-Aid	15.904	3,212	—	3,212
Technical Preservation Services	15.915	—	240,024	240,024
Outdoor Recreation Acquisition, Development and Planning	15.916	—	18,230	18,230
Rivers, Trails and Conservation Assistance	15.921	3,957	—	3,957
Migratory Bird Banding and Data Analysis	15.976	5,753	—	5,753
Total for Department of the Interior		953,839	761,237	1,715,076
Department of Labor:				
Department of Labor	17.000	—	26,703	26,703
Employee Benefits Security Administration	17.150	73,433	—	73,433
Employment Programs for People with Disabilities	17.720	74,660	—	74,660
Total for Department of Labor		148,093	26,703	174,796
Department of State:				
Department of State	19.000	2,257,559	1,282,500	3,540,059
Total for Department of State		2,257,559	1,282,500	3,540,059
Department of Transportation:				
Department of Transportation	20.000	—	27,799	27,799
Highway Planning and Construction	20.205	20,653	2,935,178	2,955,831
University Transportation Centers Program	20.701	—	35,691	35,691
Total for Department of Transportation		20,653	2,998,668	3,019,321
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration	43.000	299,147	52,153	351,300
Aerospace Education Services Program	43.001	5,761,370	9,463,471	15,224,841
Technology Transfer	43.002	57,537	9,965	67,502
Total for National Aeronautics and Space Administration		6,118,054	9,525,589	15,643,643

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
National Science Foundation:				
Engineering Grants	47.041	\$ 18,935,789	627,163	19,562,952
Mathematical and Physical Sciences	47.049	49,775,528	248,541	50,024,069
Geosciences	47.050	3,602,488	70,608	3,673,096
Computer and Information Science Engineering	47.070	6,647,520	511,654	7,159,174
Biological Sciences	47.074	11,603,556	1,809,596	13,413,152
Social, Behavioral, and Economic Sciences	47.075	2,421,981	11,327	2,433,308
Education and Human Resources	47.076	3,934,845	60,706	3,995,551
Polar Programs	47.078	308,503	—	308,503
Total for National Science Foundation		97,230,210	3,339,595	100,569,805
Environmental Protection Agency:				
Environmental Protection Agency	66.000	16,309	43,568	59,877
Water Pollution Control State and Interstate Program Support	66.419	—	56,057	56,057
Nonpoint Source Implementation Grants	66.460	—	416,491	416,491
Environmental Protection – Consolidated Research	66.500	631,300	350,911	982,211
Safe Drinking Water Research and Demonstration	66.506	206,703	—	206,703
Science To Achieve Results (STAR) Program	66.509	29,664	—	29,664
Surveys, Studies, Investigations and Special Purpose Grants	66.606	110,347	216,891	327,238
Solid Waste Management Assistance	66.808	5,515	—	5,515
Total for Environmental Protection Agency		999,838	1,083,918	2,083,756
Department of Energy:				
Department of Energy	81.000	—	302,347	302,347
Office of Science Financial Assistance Program	81.049	3,982,420	742,484	4,724,904
Regional Biomass Energy Programs	81.079	—	146,346	146,346
Conservation Research and Development	81.086	116,233	—	116,233
University Nuclear Science and Reactor Support	81.114	917,573	—	917,573
Total for Department of Energy		5,016,226	1,191,177	6,207,403
Department of Education:				
National Institute on Disability and Rehabilitation Research	84.133	122,854	—	122,854
Goals 2000: State & Local Education Systemic Improvement Grants	84.276	—	19,879	19,879
International Education – Technological Innovation and Cooperation for Foreign Information Access	84.337	—	24,168	24,168
Total for Department of Education		122,854	44,047	166,901
Department of Health and Human Services:				
Department of Health and Human Services	93.000	3,947,496	12,550,855	16,498,351
Food and Drug Administration – Research	93.103	13,785	—	13,785
Maternal and Child Health Federal Consolidated Program	93.110	173,653	—	173,653
Biological Response to Environmental Health Hazards	93.113	257,131	—	257,131
Applied Toxicological Research and Testing	93.114	521,856	—	521,856
Biometry and Risk Estimation – Health Risks from Environmental Exposures	93.115	—	82,889	82,889
Oral Diseases and Disorders Research	93.121	740,928	140,168	881,096
Human Genome Research	93.172	—	198,869	198,869
Research Related to Deafness and Communication Disorders	93.173	1,378,291	25,843	1,404,134
National Research Service Awards - Health Services Research Training	93.225	366,740	—	366,740
Mental Health Research Grants	93.242	9,499,843	(20,353)	9,479,490
Alcohol Research Programs	93.273	1,023,015	55,241	1,078,256
Drug Abuse Scientist Development Awards, Research Scientist Development Awards, and Research Scientist Awards	93.277	206,635	—	206,635
Drug Abuse National Research Service Award for Research Training	93.278	369,014	—	369,014
Drug Abuse Research Programs	93.279	5,069,567	—	5,069,567
Mental Health Research Career/Scientist Development Awards	93.281	1,933,910	—	1,933,910
Mental Health National Research Service Awards for Research Training	93.282	285,653	—	285,653
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	233,232	28,643	261,875
Bioengineering Research	93.287	—	14,470	14,470
Comparative Medicine Program	93.306	365,762	—	365,762
General Clinical Research Centers	93.333	6,800,277	—	6,800,277
Biomedical Research Technology	93.371	10,046,617	137,901	10,184,518

CORNELL UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Research Infrastructure	93.389	\$ 1,101,238	—	1,101,238
Cancer Cause and Prevention Research	93.393	1,673,983	22,108	1,696,091
Cancer Detection and Diagnosis Research	93.394	3,378,484	—	3,378,484
Cancer Treatment Research	93.395	1,156,376	349,086	1,505,462
Cancer Biology Research	93.396	3,320,109	68,722	3,388,831
Cancer Research Manpower	93.398	1,065,094	13,783	1,078,877
Cancer Control	93.399	589,832	(8,490)	581,342
Temporary Assistance for Needy Families	93.558	—	262,349	262,349
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	122,438	(250)	122,188
Development Disabilities Basic Support and Advocacy Grants	93.630	—	30,866	30,866
Social Services Research and Demonstration	93.647	36,124	—	36,124
Adoption Opportunities	93.652	—	33,478	33,478
Foster Care – Title IV-E	93.658	—	316,801	316,801
Child Abuse and Neglect Discretionary Activities	93.670	516,131	—	516,131
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	—	506,183	506,183
Cell Biology and Biophysics Research	93.821	9,989,485	458,709	10,448,194
Heart and Vascular Diseases Research	93.837	18,396,498	556,352	18,952,850
Lung Diseases Research	93.838	5,148,949	(11,114)	5,137,835
Blood Diseases and Resources Research	93.839	2,417,251	—	2,417,251
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	2,117,595	265,314	2,382,909
Diabetes, Endocrinology and Metabolism Research	93.847	4,083,746	762	4,084,508
Digestive Diseases and Nutrition Research	93.848	1,798,161	(570)	1,797,591
Kidney Diseases, Urology and Hematology Research	93.849	3,206,741	—	3,206,741
Clinical Research Related to Neurological Disorders	93.853	4,756,385	27,749	4,784,134
Biological Basis Research in the Neurosciences	93.854	4,312,724	317,522	4,630,246
Allergy, Immunology and Transplantation Research	93.855	3,762,940	38,462	3,801,402
Microbiology and Infectious Diseases Research	93.856	8,286,061	899,499	9,185,560
Pharmacology, Physiology, and Biological Chemistry Research	93.859	5,878,067	119,981	5,998,048
Genetics and Developmental Biology Research	93.862	5,986,746	183,210	6,169,956
Cellular and Molecular Basis of Disease Research	93.863	625,041	—	625,041
Population Research	93.864	3,125,253	37,941	3,163,194
Research for Mothers and Children	93.865	1,943,291	14,748	1,958,039
Aging Research	93.866	4,531,519	59,070	4,590,589
Vision Research	93.867	4,878,572	263,332	5,141,904
Minority Access to Research Careers	93.880	79,648	—	79,648
Special Projects of National Significance	93.928	126,751	—	126,751
Fogarty International Research Collaboration Award	93.934	103,701	—	103,701
Senior International Fellowships	93.989	2,056,042	—	2,056,042
Centers for Medicare and Medicaid Services (CMS)	93.779	(62)	—	(62)
Total for Department of Health and Human Services		153,804,319	18,040,129	171,844,448
Social Security Administration:				
Social Security – Research and Demonstration	96.007	—	117,651	117,651
Total for Social Security Administration		—	117,651	117,651
Research and Development Total		312,967,137	46,212,061	359,179,198
Student Financial Aid – Direct Awards:				
Department of Education:				
Federal Supplemental Education Opportunity Grant	84.007	3,103,280	—	3,103,280
Federal Family Education Loans	84.032	10,665,377	—	10,665,377
Federal Work-Study Program	84.033	5,039,493	—	5,039,493
Federal Perkins Loan Program	84.038	10,258,579	—	10,258,579
Federal Pell Grant Program	84.063	6,281,641	—	6,281,641
Federal Direct Loan	84.268	53,021,007	—	53,021,007
Total for Department of Education		88,369,377	—	88,369,377
Department of Health and Human Services:				
Health Professionals Student Loans	93.342	446,000	—	446,000
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	128,790	—	128,790
Total for Department of Health and Human Services		574,790	—	574,790
Student Financial Aid Total		88,944,167	—	88,944,167

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Department of Agriculture:				
Department of Agriculture	10.000	\$ 102,979	274,092	377,071
Plant and Animal Disease, Pest Control, and Animal Care	10.025	35,202	42,285	77,487
Grants for Agricultural Research, Special Research Grants	10.200	159,853	180,141	339,994
Payments to Agricultural Experiment Stations Under Hatch Act	10.203	341,864	—	341,864
Grants for Agricultural Research – Competitive Research Grants	10.206	72,901	66,102	139,003
Animal Health and Disease Research	10.207	213,163	—	213,163
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210	123,028	—	123,028
Sustainable Agriculture Research and Education	10.215	—	66,254	66,254
Higher Education Challenge Grants	10.217	155,834	—	155,834
Higher Education Multicultural Scholars Program	10.220	50,000	—	50,000
Fund for Rural America: Research, Education, and Extension	10.224	—	36,366	36,366
Initiative for Future Agriculture and Food Systems	10.302	454,009	32,883	486,892
Integrated Programs	10.303	—	243,173	243,173
Technical Assistance to Cooperatives	10.350	62,473	—	62,473
Human Nutrition Information Service	10.375	—	46,691	46,691
Food Stamps	10.551	—	569,356	569,356
Emergency Food Assistance Program (Administrative Costs)	10.568	—	42,296	42,296
Cooperative Forestry Assistance	10.664	34,938	—	34,938
National Agricultural Library	10.700	6,623	—	6,623
Technical Agricultural Assistance	10.960	8,130	—	8,130
Scientific Co-operation and Research	10.961	177,249	—	177,249
International Training – Foreign Participants	10.962	499	—	499
Total for Department of Agriculture		1,998,745	1,599,639	3,598,384
Department of Commerce:				
Department of Commerce	11.000	—	18,906	18,906
Census Intergovernmental Services	11.004	125,388	—	125,388
Economic Development – Technical Assistance	11.303	101,802	—	101,802
Sea Grant Support	11.417	80,243	722,883	803,126
Total for Department of Commerce		307,433	741,789	1,049,222
Department of Defense:				
Department of Defense	12.000	36,764	—	36,764
Military Medical Research and Development	12.420	2,445	110,475	112,920
International Education – U.S. Colleges and Universities	12.550	—	35,913	35,913
Mathematical Sciences Grants Program	12.901	161,228	—	161,228
Total for Department of Defense		200,437	146,388	346,825
Department of Housing and Urban Development:				
Community Outreach Partnership Center Program	14.511	159,962	—	159,962
Total for Department of Housing and Urban Development		159,962	—	159,962
Department of the Interior:				
Wildlife Conservation and Appreciation	15.617	20,758	45	20,803
Assistance to State Water Resources Research Institutes	15.805	14,933	—	14,933
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	9,140	—	9,140
Historic Preservation Fund Grants-In-Aid	15.904	65,476	—	65,476
Total for Department of the Interior		110,307	45	110,352
Department of Labor:				
Department of Labor	17.000	281,210	—	281,210
Employment Services and Job Training: Pilot and Demonstration Program	17.249	43,878	—	43,878
Work Incentive Grant	17.266	—	127,799	127,799
Total for Department of Labor		325,088	127,799	452,887
Department of State:				
Department of State	19.000	—	508,434	508,434
Professional Development – International Educators/Administrators	19.404	—	4,591	4,591
Total for Department of State		—	513,025	513,025
Department of Transportation:				

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Department of Transportation	20.000	\$ 10,747	—	10,747
Highway Planning and Construction	20.205	2,470	508,304	510,774
Highway Training and Education	20.215	17,241	1,882	19,123
State and Community Highway Safety	20.600	—	56,772	56,772
Total for Department of Transportation		30,458	566,958	597,416
Department of Treasury:				
Community Development Financial Institutions	21.020	—	18,867	18,867
Total for Department of Treasury		—	18,867	18,867
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration	43.000	—	43,052	43,052
Aerospace Education Service Program	43.001	468,032	9,440	477,472
Total for National Aeronautics and Space Administration		468,032	52,492	520,524
National Foundation on the Arts and the Humanities:				
Promotion of Arts: Arts in Education	45.003	14,063	—	14,063
Promotion of Arts: Grants to Organizations and Individuals	45.024	10,151	—	10,151
Promotion of the Humanities – Division of Preservation and Access	45.149	578,166	—	578,166
Promotion of the Humanities – Public Programs	45.164	(1,093)	—	(1,093)
Institute of Museum and Library Services	45.301	139,805	—	139,805
Institute of Museum and Library Services National Leadership Grants	45.312	264,324	—	264,324
Total for National Foundation on the Arts and Humanities		1,005,416	—	1,005,416
National Science Foundation:				
Engineering Grants	47.041	4,397	27,885	32,282
Mathematical and Physical Sciences	47.049	134,015	—	134,015
Geosciences	47.050	60,764	—	60,764
Computer and Information Science Engineering	47.070	364,973	34,833	399,806
Biological Sciences	47.074	625,796	—	625,796
Education and Human Resources	47.076	4,133,482	—	4,133,482
Total for National Science Foundation		5,323,427	62,718	5,386,145
Environmental Protection Agency:				
Environmental Protection Agency	66.000	22,240	—	22,240
Water Pollution Control – State and Interstate Program Support	66.419	21,849	—	21,849
Water Quality Management Planning	66.454	—	63,479	63,479
National Estuary Program	66.456	101,382	—	101,382
Nonpoint Source Implementation Grants	66.640	—	172,363	172,363
Great Lakes Program	66.469	3,729	—	3,729
Environmental Protection – Consolidated Research	66.500	(27,603)	—	(27,603)
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	242,133	—	242,133
Environment Education and Training Program	66.950	—	644	644
Total for Environmental Protection Agency		363,730	236,486	600,216
Federal Emergency Management Agency:				
Federal Emergency Management Agency	83.000	—	299,746	299,746
Total for Federal Emergency Management Agency		—	299,746	299,746
Department of Education:				
Department of Education	84.000	—	2,595	2,595
Migrant Education – Basic State Formula Grant Program	84.011	—	598,561	598,561
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015	1,692,300	221,315	1,913,615
International Research and Studies	84.017	94,198	—	94,198
Overseas – Doctoral Dissertation	84.022	62,593	—	62,593
Special Education – Grants to States	84.027	—	360,856	360,856
Rehabilitation Long-Term Training	84.129	2,945	—	2,945
National Institute on Disability and Rehabilitation Research	84.133	1,954,276	5,751	1,960,027
Migrant Education – Coordination Program	84.144	—	16,457	16,457
Javts Fellowships	84.170	324,954	—	324,954
Graduate Assistance in Areas of National Need	84.200	790,538	—	790,538

CORNELL UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Direct awards	Pass-through awards	Total expenditures
Secondary Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	—	9,396	9,396
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	—	4,850	4,850
Early Childhood Educator Professional Development	84.349	—	32,565	32,565
Total for Department of Education		4,921,804	1,252,346	6,174,150
United States Institute of Peace:				
Unsolicited Grant Program	91.001	—	17,921	17,921
Total for United States Institute of Peace		—	17,921	17,921
Department of Health and Human Services:				
Department of Health and Human Services	93.000	59,058	1,033,906	1,092,964
Minority International Research Training Grant in the Biomedical & Behavioral Sciences	93.106	63,583	—	63,583
Applied Toxicological Research and Testing	93.114	—	18,446	18,446
Research Related to Deafness and Communication Disorders	93.173	16,535	—	16,535
Disabilities Prevention	93.184	—	4,525	4,525
Occupational Safety and Health Research Grants	93.262	—	48,114	48,114
Mental Health National Research Service Awards for Research Training	93.282	202,383	—	202,383
Comparative Medicine Program	93.306	349,469	—	349,469
Cancer Biology Research	93.396	—	28,030	28,030
Cancer Research Manpower	93.398	141,267	—	141,267
Community Services Block Grant (CSBG)	93.569	—	2,929	2,929
Community Services Block Grant Discretionary Awards – Community Food and Nutrition	93.571	—	44,732	44,732
Child Care Mandatory and Matching Funds of the Child Care & Development Fund	93.596	—	517,822	517,822
Head Start	93.600	41,470	177,362	218,832
Development Disabilities Basic Support and Advocacy Grants	93.630	—	104,455	104,455
Social Services Research and Demonstration	93.647	—	(2,184)	(2,184)
Cell Biology and Biophysics Research	93.821	1,273,926	—	1,273,926
Blood Diseases and Resources Research	93.839	96,603	—	96,603
Digestive Diseases and Nutrition Research	93.848	419,899	—	419,899
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	3,699	—	3,699
Biological Basis Research in the Neurosciences	93.854	12,111	—	12,111
Microbiology and Infectious Diseases Research	93.856	231,172	—	231,172
Pharmacology, Physiology, and Biological Chemistry Research	93.859	178,942	—	178,942
Genetics and Developmental Biology Research	93.862	282,223	—	282,223
Population Research	93.864	7,742	—	7,742
Research for Mothers and Children	93.865	67,758	—	67,758
Vision Research	93.867	50,116	—	50,116
Strabismus, Amblyopia and Visual Processing	93.871	212,495	—	212,495
Resource and Manpower Development in the Environmental Health Sciences	93.894	95,548	—	95,548
Fogarty International Research Collaboration Award	93.934	13,143	—	13,143
Health Administration Traineeships and Special Projects Program	93.962	3,991	—	3,991
Senior International Fellowships	93.989	334,506	—	334,506
Total for Department of Health and Human Services		4,157,639	1,978,137	6,135,776

CORNELL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA number</u>	<u>Direct awards</u>	<u>Pass-through awards</u>	<u>Total expenditures</u>
Social Security Administration:				
Social Security Agency	96.000	\$ 941,660	—	941,660
Social Security – Research and Demonstration	96.007	—	1,953	1,953
Total Social Security Administration		<u>941,660</u>	<u>1,953</u>	<u>943,613</u>
Total Federal Financial Assistance		<u>\$ 436,205,533</u>	<u>53,989,539</u>	<u>490,195,072</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CORNELL UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

(1) Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of Cornell University and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Significant categories of awards for the University are as follows:

Research and development – Includes awards for research and development work of the University under grants and contracts primarily funded by the Department of Health and Human Services, the National Science Foundation, the Department of Agriculture, the Department of Defense, the National Aeronautics Space Administration, and the Department of Energy.

Student financial assistance – Includes certain awards to provide financial assistance to students, under the Federal Work-Study (FWS), Federal Pell Grant (Pell), and Federal Supplemental Educational Opportunity Grant (FSEOG) programs. Student financial assistance also includes the Federal Perkins, Federal Family Education, Federal Direct, and Health Professions Student guaranteed loan programs of the Department of Education or Department of Health and Human Services. The University receives awards to make loans to eligible students under certain Federal student loan programs and federally-guaranteed loans are issued to students of the University either by various financial institutions or directly by the University.

Cooperative extension service – Includes awards issued by the Department of Agriculture under the Smith-Lever Act for public services and education provided by cooperative extension locations in each county of New York and New York City.

The amounts included in the schedule have been extracted from the books and records of the University used to prepare the basic financial statements, and have been reconciled with the appropriate Federal reports.

(2) Facilities and Administrative Costs

Certain expenditures include a portion of costs associated with general university activities (Facilities and Administrative Costs), which are allocated to awards under negotiated formulas commonly referred to as Facilities and Administrative (F&A) cost rates (formerly known as indirect cost rates).

Federal F&A cost recoveries for the fiscal year ended June 30, 2003 totaled \$94,889,118 including \$57,869,339 for the Ithaca campus and \$37,019,779 for WMC.

Ithaca Campus

F&A cost rates for the Ithaca Campus have been finalized through fiscal year 2005 as predetermined rates pursuant to the Department of Health and Human Services (DHHS) rate agreement dated January 3, 2003. Provisional rates have been established for fiscal year 2006 and beyond.

CORNELL UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Weill Medical College (WMC)

F&A cost rates for the WMC have been finalized through fiscal year 2006 as predetermined rates pursuant to the Department of Health and Human Services (DHHS) rate agreement dated June 17, 2003. Provisional rates have been established for fiscal year 2007 and beyond.

(3) Student Loan Programs

The University had the following loan balances outstanding at June 30, 2003. These balances are not included in the Federal expenditures presented in the schedule.

	<u>CFDA number</u>		<u>Amount outstanding</u>
Federal Perkins Loan Program	84.038	\$	43,732,033
Health Professions Student Loan Program	93.342		3,503,845
Loans for Disadvantaged Students	93.925		467,507
		\$	<u>47,703,385</u>

The loan programs noted above are administered directly by the University and balances and transactions relating to these programs are included in the University's basic financial statements. The Schedule of Expenditures of Federal Awards includes loan expenditures and disbursements to students and administrative costs of the loan programs for the year ended June 30, 2003.

The University issued the following amounts of new loans under the Federal Direct Loan and Federal Family Education Loan Programs to students of the University during the year ended June 30, 2003:

Federal Direct Loan Program (FDLP):	
Federal Subsidized	\$ 35,870,110
Federal Unsubsidized	<u>17,150,897</u>
Total FDLP	<u>\$ 53,021,007</u>
Federal Family Education Loan Program	<u>\$ 10,665,377</u>

The University is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan and the Federal Direct Loan programs and, accordingly, these loans are not included in the University's basic financial statements. It is not practical to determine the balance of loans outstanding to students of the University under these programs at June 30, 2003.

(4) Pass-Through Awards and Subrecipients

The University receives pass-through awards from approximately 500 not-for-profit organizations. Accordingly, it is not practical to identify in the Schedule of Expenditures of Federal Awards each organization from which the University receives such pass-through awards. In addition, the University has approximately 450 subrecipients of its federal funds. Due to the large number of programs and sponsors, it is not practical to disclose the amount of payments to subrecipients.

**Independent Auditors' Report on Compliance and on
Internal Control over Financial Reporting Based on
an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Board of Trustees
Cornell University:

We have audited the financial statements of Cornell University as of and for the year ended June 30, 2003, and have issued our report thereon dated September 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Cornell University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cornell University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters, which we have reported to the Audit Committee of Cornell University in a separate letter dated September 9, 2003.

This report is intended solely for the information and use of the Audit Committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 9, 2003
Rochester, New York

**Independent Auditors' Report on Compliance with Requirements
Applicable to each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Board of Trustees
Cornell University:

Compliance

We have audited the compliance of Cornell University with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2003. Cornell University's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Cornell University's management. Our responsibility is to express an opinion on Cornell University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Cornell University's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cornell University's compliance with those requirements.

In our opinion, Cornell University complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Cornell University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Cornell University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Audit Committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 14, 2003
Rochester, New York

CORNELL UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

I. Summary of Auditors' Results:

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs or Clusters</u>
10.500	Public Service – Cooperative Extension Service
Various	Research and Development Cluster
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.342, and 93.925	Student Financial Assistance Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000

Auditee qualified as low-risk auditee? X yes _____ no

CORNELL UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

II. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

None Reported

III. Findings and Questioned Costs Relating to Federal Awards:

None Reported