

Cornell University

David J. Skorton
President

February 20, 2008

The Honorable Max Baucus
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Charles Grassley
Ranking Minority Member
Senate Committee on Finance
203 Hart Senate Office Building
Washington, D.C. 20510

Dear Chairman Baucus and Ranking Member Grassley:

Cornell University appreciates the opportunity to highlight the significance of college and university endowments to the long-term well-being of our country's highly successful system of higher education. I share the Committee's concern that the perception of the cost of a college education may deter many students and their families from participating in the breadth of America's higher educational offerings. As policy makers and citizens, we all have work to do to find better solutions to address the issue of access to education in our nation.

As reports such as "Rising Above the Gathering Storm" have stated with such conviction, the position of the United States as the global leader in technology and innovation is directly related to the quality of our higher education system. The future of our country depends on an educated workforce capable of solving complex problems, doing innovative basic research, and responding to marketplace demands with new scientific applications. Our nation cannot maintain its current position without a strong, vibrant network of colleges and universities preparing the next generation of leaders for the challenges of their time.

From its founding in 1865 as the land grant university of New York State, Cornell University has been committed to providing access to higher education for all students, regardless of race, gender, or economic circumstances. Ezra Cornell's vision to "found an institution where any person can find instruction in any study" was a radical idea at a time when college was reserved for the sons of the privileged. Indeed, Cornell University admitted women and minority students within ten years of opening, awarded need-based grants as early as 1879, and received its first endowed scholarship fund in 1892.

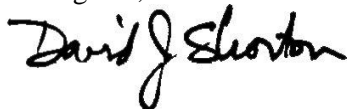
Ezra Cornell established the university's endowment with an initial gift of \$500,000. With the support of thousands of generous alumni and other donors and careful stewardship over many years, Cornell's endowment is currently valued at \$5.4 billion. The university is at the mid-point of a fund-raising campaign that aims to increase the endowment by \$1.35 billion. Cornell continues to raise funds, through its investments and from donors, because the very nature of a university—which encompasses the discovery, creation, preservation, and dissemination of knowledge—requires an extensive body of experts and a set of expensive support structures, such as libraries and laboratories, to provide students with a world-class education. The nature of these activities has and will continue to require funding increases that may exceed the rate of inflation measured by consumer price indexes.

America's system of higher education depends on a fundamental partnership of public and private institutions, federal and state governments, philanthropy, and students and their families to sustain itself. To that end, Cornell recently announced that it is further enhancing its financial aid policies for undergraduates, and beginning in 2008-09 and coming to full fruition in 2009-10, Cornell will eliminate need-based loans for all undergraduates from families with incomes under \$75,000 going forward, making it possible for new students to graduate debt-free. Cornell will also cap annual loans at \$3,000 for students from families with incomes between \$75,000 and \$120,000. This \$24 million initiative will be funded from new endowment gifts, an increase in endowment payout, and a reallocation of existing resources.

Cornell is able to offer financial aid packages like the one described above because of sound management of endowment assets and the willingness of its Board of Trustees to make necessary adjustments to ensure that university assets are used effectively. As the attached document illustrates in greater detail, the trustees take their responsibilities seriously and discharge their duties with great care—all in an environment of intense federal, state, and public scrutiny. Cornell has for years provided much of the information used to answer the Committee's questions on its web site. In addition, the university shares this material in printed form with students, prospective students, their families, other members of the university community, and the general public. We are working continually to improve our communications.

Attached please find the answers to your questions, with links to all on-line resources. I hope that the Committee's inquiry will help inform the understanding about the way endowments are raised, managed, and expended and will eliminate the need for legislation that could dampen private philanthropy that supports students, faculty, research, and education. I look forward to working with you to forge new pathways to college affordability and access, and would be happy to answer any additional questions about Cornell you may have.

Best regards,

A handwritten signature in black ink that reads "David J. Skorton". The signature is written in a cursive, flowing style.

David J. Skorton

Cornell University Response to the Questions Posed by The United States Senate Committee on Finance

February 20, 2008

Much of the information requested by the United States Senate Committee on Finance is regularly published and freely made available to the public through Cornell University's website. (www.cornell.edu) Published documents that are referenced in this response are listed throughout, with linking URLs where online copies are available.

1) Please provide the number of undergraduate and graduate students year-by-year for the last ten years.

Response: Headcount enrollments as of the 6th week of the fall semester of each year are displayed in Table 1 below for all of Cornell's colleges and schools. "Graduate" includes professional school students.

Table 1. Total Enrollment – Headcount (6th Week of the Fall Semester)

<u>Fiscal Year</u>	<u>Undergraduate</u>	<u>Graduate</u>
1997-98	13,294	5,762
1998-99	13,442	5,857
1999-00	13,669	5,985
2000-01	13,590	6,030
2001-02	13,801	6,340
2002-03	13,725	6,512
2003-04	13,655	6,679
2004-05	13,625	6,611
2005-06	13,515	6,683
2006-07	13,562	6,855

Reference: Cornell Factbook – Enrollment. (http://www.dpb.cornell.edu/F_Enrollment.htm)

2a) Please provide the total cost of undergraduate tuition (including all fees)—both sticker and average, mean and median—year-by-year for the last ten years.

Response: Shown in Table 2 below are the applicable "sticker" tuition and mandatory fee rates for incoming freshmen. Cornell has three main undergraduate tuition rates:

- *Endowed Ithaca* tuition applies to the students enrolled in architecture, art and planning; arts and sciences; engineering; and hotel administration.
- The other two rates are associated with three of the four contract colleges at Cornell that enroll undergraduates: agriculture and life sciences, human ecology, and industrial and labor relations. The contract colleges are affiliated with the State University of New York and are chartered under specific state laws. While components of a private university, the contract colleges

employ a system of *resident* and *non-resident* tuition rates to recognize the financial assistance that New York State provides to Cornell to support these colleges.

Cornell’s only mandatory fee—the *student activity fee*—applies equally to all on-campus undergraduates.

In addition to these main rates, Cornell charges other tuitions for undergraduates enrolled in off-campus programs, within the U.S. and abroad. In some abroad programs, Cornell charges reduced tuition and the hosting university charges the student its own tuition and fees. These off-campus rates (Cornell’s or other institutions’) are not shown under “sticker.”

Table 2. Tuition & Mandatory Fees – Undergraduate – “Sticker”

<u>Year</u>	<u>Endowed Ithaca</u>	<u>Contract–Resident</u>	<u>Contract–Nonresident</u>
1997-98	\$21,914	\$9,374	\$18,024
1998-99	\$22,868	\$9,938	\$18,988
1999-00	\$23,848	\$10,418	\$19,988
2000-01	\$24,852	\$10,922	\$20,992
2001-02	\$26,062	\$12,062	\$22,292
2002-03	\$27,394	\$13,274	\$23,624
2003-04	\$28,754	\$14,624	\$25,924
2004-05	\$30,167	\$16,037	\$28,567
2005-06	\$31,467	\$17,367	\$30,367
2006-07	\$32,981	\$18,241	\$31,881

Reference: Cornell Factbook –Tuition & Mandatory Fees.
(<http://www.dpb.cornell.edu/documents/1000212.pdf>)

The mean net tuition and mandatory fee amounts paid per year are displayed in Table 3 below, weighted for the relative proportion of student enrollments at the different tuition rates shown in Table 2 above. Net tuitions were computed two ways: (a) by taking gross tuition revenues and subtracting grant aid from Cornell’s sources and (b) by taking gross tuition revenues and subtracting grant aid from all sources: Cornell, governments, and other externalities. Those averages have been contrasted with the weighted average “sticker” prices charged during the period. The first method represents what Cornell experiences as net revenue; the second represents what the student experiences as net price.

The figures in Table 3 below represent on-campus enrollments and rates only. The population of students enrolled in off-campus programs (and their attendant special tuition rates) was not considered in these calculations. Factored into the analysis, however, are lower tuition rates that were charged to continuing nonresident contract college students during some of these years.

As is evident in Table 3 below, Cornell provides most of the grant-aid that its students receive and has increased the proportion of that grant aid as a percent of the “sticker” price over the past six years. Over the past ten years, the fraction of Cornell’s “sticker” price paid for from external grant aid—including federal and state resources—has declined steadily, from 7.3% in 1997-98 to 5.6% in 2006-07.

Table 3. Tuition & Mandatory Fees – Undergraduate – “Sticker” Versus Net

Year	Tuition & Fees “Sticker” *	Tuition & Fees Net of Cornell Sources *	Cornell Aid Sources as a % of “Sticker”	Tuition & Fees Net of All Aid Sources *	All Aid Sources as a % of “Sticker”
1997-98	\$18,912	\$14,656	22.5%	\$13,274	29.8%
1998-99	\$19,931	\$15,374	22.9%	\$13,930	30.1%
1999-00	\$20,814	\$15,994	23.2%	\$14,508	30.3%
2000-01	\$21,830	\$16,815	23.0%	\$15,255	30.1%
2001-02	\$23,107	\$18,041	21.9%	\$16,426	28.9%
2002-03	\$24,424	\$18,718	23.4%	\$17,057	30.2%
2003-04	\$25,862	\$19,375	25.1%	\$17,597	32.0%
2004-05	\$27,575	\$20,391	26.1%	\$18,665	32.3%
2005-06	\$29,152	\$21,475	26.3%	\$19,830	32.0%
2006-07	\$30,637	\$22,520	26.5%	\$20,814	32.1%

* *Tuition and mandatory fees displayed in this table—“sticker” and both net amounts—have been weighted for the relative proportion of student enrollments at the different main tuition rates shown in Table 2 as well as the lower tuition rates that were charged to continuing nonresident contract college students during some of these years.*

Cornell cannot easily provide the median net tuition and mandatory fee amount charged for the ten-year period, as the university did not track this metric during this time. Until recently, the bursar files that would be required for such a detailed, person-by-person analysis were purged every year at the start of a new year’s billing cycle.

2b) Please provide the amount of tuition assistance (not including loans or work study) that the university has provided to undergraduate students year-by-year for the last ten years.

Response: Cornell provides undergraduates with financial aid that helps to pay for the total cost of attendance: tuition, fees, room, board, textbooks, and miscellaneous expenses (e.g., travel to and from home to campus). Thus, the financial aid provided (grant aid, as opposed to loans and work/study) is not just for “tuition assistance,” and for some students it exceeds the cost of tuition. Table 4 below displays the total amount of grant aid provided in each year from Cornell’s resources, including aid to international students.

Table 4. Grant Aid * – Undergraduate – Cornell Resources

<u>Year</u>	<u>Grant Aid</u>
1997-98	\$56,217,000
1998-99	\$60,868,000
1999-00	\$65,463,000
2000-01	\$67,653,000
2001-02	\$69,368,000
2002-03	\$77,679,000
2003-04	\$87,909,000
2004-05	\$97,194,000
2005-06	\$102,959,000
2006-07	\$109,253,000

* *Includes aid to international students.*

Reference: Appendix G of Cornell University's annual financial plan booklet, available by fiscal year. (http://www.dpb.cornell.edu/FP_Current_Pubs.htm)

2c) *For the most recent year, please provide the percentage of students receiving university grants (for example 25%; 50%; 75% and 100% of tuition and fees). Please provide the average grant amount.*

Response: Table 5 below indicates the number of undergraduates who received grant aid from Cornell's resources, by the ranges suggested in question 2c—including the number of students whose grant aid exceeds 100% of tuition—based on the individual tuition and mandatory fee rates that each paid. (See answer to question 2a above concerning Cornell's various tuition and mandatory fee rate structures.)

Because undergraduate financial aid is awarded based on the overall cost of attendance—tuition and mandatory fees, room and board, books, and personal expenses—a number of students (631 in 2006-07) qualify for grant-aid in excess of their individual tuition and mandatory fee rates.

Table 5. Grant Aid as a % of Tuition & Fees – Undergraduate (2006-07)

<u>Category</u>	<u>Number of Students</u>	<u>% of Grant-Aid Population *</u>	<u>% of Overall Undergraduate Enrollment</u>	<u>Average Grant</u>
Total with Cornell Grant Aid	5,553	100.0%	40.9%	\$18,778
<=25% of Tuition/Fees	776	14.0%	5.7%	\$3,723
>25% and <=50% of Tuition/Fees	1,207	21.7%	8.9%	\$10,991
>50% and <=75% of Tuition/Fees	1,478	26.6%	10.9%	\$19,118
>75% and <=100% of Tuition/Fees	1,461	26.3%	10.8%	\$26,563
>100% of Tuition/Fees	631	11.4%	4.7%	\$33,368

* Excludes those international students who are not eligible for financial aid under Cornell's March 1998 financial-aid policy. In the fall semester of 2006, Cornell enrolled 1,070 international students of whom 781 were not eligible for grant aid under that policy. Some of these 781 international students received grant aid under a separate program established to aid international students.

3a) Please explain your university's financial aid policy.

Response: Cornell's undergraduate financial-aid policy—which was predicated on its founding mission as the land-grant university for New York State; its founding goal to extend education to students regardless of race, gender, creed, or economic circumstances; and a history of providing significant financial assistance to students—was adopted by the Board of Trustees in March 1998.

Cornell University makes admissions decisions without regard to the ability of students or parents to pay educational costs. Students who are U.S. citizens or permanent residents and who demonstrate financial need will be assisted in meeting that need through one or more of the following: federal and state grants, employment opportunities, loans, The Cornell Commitment programs, scholarships from endowments and restricted funds, and Cornell grants. Annual adjustments will be made in self-help and family contribution levels.

Cornell will continue its commitment to excellence and diversity in the student population. Self-help levels for individual students may reflect the University's recognition of outstanding merit, unique talent, commitment to work and community service, and its commitment to diversity in the class.

Within this policy, Cornell assists each family in assembling a portfolio of resources that will cover that student's cost of attendance. This portfolio is highly customized, taking into account family income; federal, state, and local income taxes; family assets; medical and dental expenses; number of dependents in the family and the number of those dependents in college simultaneously; and a variety of special circumstances (such as noncustodial and self-employed parents). The family's contribution toward educational costs is determined by using the 568 Presidents' Group *Consensus Approach* methodology.

Cornell is a founding member of the 568 Presidents' Group, named for Section 568 of the *Improving America's Schools Act (IASA) of 1994*. Section 568 applies only to institutional aid and only to colleges and universities that admit all students on a need-blind basis—that is, without considering the financial circumstances of the student or the student's family. (<http://www.568group.org/>)

It permits those institutions:

- To agree to award aid only on the basis of demonstrated financial need
- To use common principles of analysis for determining the need of students for that aid
- To use a common application form for institutional aid
- To exchange certain financial data through an independent third party before the award of institutional aid

Cornell and other Section 568 institutions have jointly developed the *Consensus Approach* methodology that is applied within reasonable variation within the group. (<http://www.568group.org/methodology/index.html>) The *Consensus Approach* is derived from the College Board's *Institutional Methodology*. (<http://professionals.collegeboard.com/higher-ed/financial-aid/im>) The *Institutional Methodology* is the result of over 50 years of analysis, review, revision, and formulation by the financial aid members of the College Board. As noted by the 568 Presidents' Group:

The Consensus Approach consists of a set of common standards for determining the family's ability to pay for college. It seeks to eliminate much of the variance in need analysis results that has been experienced in recent years. The participating institutions believe that the Consensus Approach, when applied in a consistent manner, serves to diminish or eliminate the divergent results that threaten the long-standing tradition of awarding aid on the basis of need.

Once the net financial need of the student has been calculated (“net” being defined as cost of attendance less the resources that families and externalities can be expected to pay), Cornell uses a mix of university grant, loan, and work/study opportunities to fund that need. This mix is not awarded uniformly, however, as Cornell has goals that it is trying to achieve, such as increasing the number of low-income students and underrepresented minorities. Currently, the university reduces the level of loans (and increases the corresponding amount of grant aid) for families with incomes below \$25,000. Beginning in 2008-09 and coming to full fruition in 2009-10, Cornell will eliminate need-based loans for all undergraduates from families with incomes under \$75,000, making it possible for new students to graduate debt-free. Cornell will also cap annual loans at \$3,000 for students from families with incomes between \$75,000 and \$120,000. The details of this are explained in a press release dated January 31, 2008. (<http://pressoffice.cornell.edu/Jan08/fin.aid.endowment.shtml>)

Reference: A more thorough discussion of Cornell’s financial aid history prior to the most recent initiative noted above can be found in an article published in May 2005. (<http://www.dpb.cornell.edu/documents/1000030.pdf>)

3b) How do you inform students and parents of that policy?

Response: Cornell interacts with prospective students and their families in a variety of ways. The university’s approach to admissions and financial aid is featured in its website for prospective students. (<http://www.cornell.edu/admissions/>) The policy is stated clearly (<http://finaid.cornell.edu/Prospective/Policy.htm>), links are provided to the College Board website and other sites that will be of use to a prospective student (<http://finaid.cornell.edu/Shared/Links.htm>), and an FAQ page (<http://finaid.cornell.edu/Shared/FAQ2007.htm>) provides answers in simple language. Similar information is provided in brochures and other print materials (such as Cornell’s “view book” and a separate booklet devoted to financial aid) and at numerous one-on-one and group information sessions. The view book is distributed to over 100,000 first-time freshman prospects and an additional 40,000 copies are given to transfer prospects and others interested in Cornell. Changes in Cornell’s admissions and financial-aid policies are featured in university press releases, *The Cornell Chronicle* (a weekly publication of the university), *The Cornell Daily Sun* (a daily, independent, student-run newspaper), and the local and regional press.

3c) What outreach efforts does your university take to recruit potential low-income students?

Response: Since Cornell has a need-blind admissions policy, the university does not recruit students by income specifically, but it does have outreach efforts that target students who attend economically disadvantaged high schools. Cornell partners with community-based organizations (such as *Prep For Prep*, *ABC [A Better Chance]*, *Washington Metro Scholars*, and *Venture Scholars*, among others). These organizations all work with students who attend economically disadvantaged high schools or who live in economically disadvantaged neighborhoods. The university’s outreach includes bringing prospective students to campus for day and overnight visits, hosting workshops on admissions and financial aid, and conducting information sessions for parents. University staff members also visit high schools in low-income areas and work with counselors and students to introduce them to Cornell.

3d) How is low-income defined? What is the amount spent on these efforts?

Response: While Cornell provides financial assistance to all students who demonstrate a financial need and therefore does not focus solely on “low income” students, the university’s recently announced initiative to reduce and eliminate loan burdens for some students beginning in 2008-09 provides a surrogate for defining an important income cutoff: families earning \$75,000 or less. This value was chosen

as it represents, approximately, the U.S. median family income of families in the 45- to 54-age range (the age span statistically most likely to have college-age eligible children)—in essence the lower half of the income spectrum. Cornell's initiative goes beyond that income threshold, however, in also reducing the loan burden of families earning between \$75,000 and \$120,000. Cornell included this additional component in its initiative because the university, as noted by Cornell Provost Carolyn A. Martin, believes that it is critical that all students "...excel at their academic work and consider a range of careers without the worry of excessive debt at graduation."

Of the \$109.9 million in grant aid that Cornell expects to spend on undergraduate financial aid in 2007-08 from institutional resources, the university estimates that \$62.5 million in grant aid will go to families at the \$75,000 or less income level. When Cornell's newly announced initiative takes full effect in 2009-10, the institution expects to provide a total of approximately \$76.7 million (in 2007-08 dollars) in grant aid for this population.

4a) Who determines and decides when tuition increases are necessary?

Response: Ultimately, the university's president recommends tuition increases and decreases to Cornell's Board of Trustees, which has the authority to make such decisions. The university's provost and her staff provide the analysis and supporting documentation on which the president's recommendation is based. In developing proposals, the provost reviews a range of scenarios with the Provost's Budget Planning Advisory Group. (See answer to question 4b below.)

Reference: See the Cornell University Bylaws, Article XXIII, §2.
(http://www.cornell.edu/trustees/cornell_bylaws.pdf)

4b) What is the process for making this decision?

Response: Tuition setting is done in the context of developing Cornell's overall annual financial plan as well as its multi-year, long-range operating and capital plans. The planning process involves discussions of a wide range of revenue and expense categories, including tuition, fees, room and board rates, gift revenues, endowment payout, support from grants and contracts, compensation costs, financial aid, capital and debt-service expenses, maintenance and utility costs, and general operating expenses, among others. Individuals at all levels of the institution are involved, including deans, provosts, and vice presidents. Planning assumptions are also reviewed with representative bodies of the faculty, students, and staff. Several trustee committees review these plans as they develop, prior to the final adoption of a financial plan. Undergraduate tuition rates are formally reviewed by the Provost's Budget Planning Advisory Group, which prepares recommendations for the president to take to the Board of Trustees. This group is composed of the provost, the executive vice president for finance and administration, the deputy provost, the vice president for

student and academic services, the vice president for planning and budget, and the deans of the two largest undergraduate colleges.

Cornell also consults with the trustees of the State University of New York concerning the tuition levels of the four state-assisted colleges at Cornell, three of which enroll undergraduate students.

Setting Cornell's multiple tuition rates requires the university to balance the need to fund the institution's core academic programs and the ability of students and their families to accommodate rate changes. Cornell's financial-aid policy serves to buffer low-income families from the deleterious effects of tuition inflation by adjusting grant aid upward based on cost increases.

4c) Does the full Board of Trustees vote on tuition increases?

Response: Yes.

4d) Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made?

Response: As a private institution, Cornell does not have a "public comment" review as part of its tuition-setting process. Two student-elected members, however, sit on the Cornell Board of Trustees. These students serve as full-functioning trustees and vote on all tuition changes, among other duties.

Reference: See the Cornell University Bylaws, Article II, §2.4.c.
(http://www.cornell.edu/trustees/cornell_bylaws.pdf)

4e) What role does your university endowment play in providing financial assistance to students?

Response: Of the \$109.9 million in grant aid that Cornell expects to spend on undergraduate financial aid in 2007-08, \$28.1 million, or 25.6%, will come from endowment payout. Cornell's recently announced fund-raising initiative, *Far Above... The Campaign for Cornell*, seeks to increase financial aid endowment principal by \$225 million, which will augment this by \$11.3 million annually.

5a) Please explain how your university's endowment is managed and the role of the Board of Directors?

Response: Cornell's University Investment Office is charged with managing endowment and other invested assets. As provided for in Cornell's bylaws (Article III, §5), the Investment Committee, a standing committee of Cornell's Board of Trustees, provides policy guidance and oversight for the Investment Office:

- a. The Investment Committee shall consist of the Chairperson of the Board and the President of the University, each *ex officio*, together with trustees, emeritus trustees, and nontrustee members to be elected by the Board. The presence of three voting trustee members shall constitute a quorum.

b. The Committee shall determine investment policy, objectives, and guidelines for the University. The Committee shall allocate assets between classes of investments and shall generally supervise management of the University's assets available for investment and the investment office, consistent with the provisions of Article VIII of these Bylaws.

c. There shall be a Chief Investment Officer who shall report to the President and to the Investment Committee, and shall hold office at the pleasure of both. The Chief Investment Officer shall have responsibility for managing the Investment Office. The Chief Investment Officer also shall be responsible for coordinating the University's relationships with investment managers as designated by the Investment Committee.

d. The Chief Investment Officer shall select and appoint outside investment managers and internal investment officers. The Chief Investment Officer may authorize outside investment managers or internal investment officers to purchase, sell, transfer and assign securities, real estate and other investment assets for their assigned portions of the University's investment portfolio within guidelines established by the Committee and to perform such acts with respect to assets held by the University as a fiduciary in the same manner as when held for the University's own benefit.

In discharging its duties, the Investment Office oversees more than 200 investment accounts and partnerships with external investment managers.

5b) *What are your university's endowment payout and investment policies?*

Response: While the concept of endowment is useful, the institution does not manage its investments based on an "endowment" construct. Instead, the university maintains a number of investment pools or categories for specified purposes, the most significant of which are the Long-Term Investment Pool (LTIP), described below, and the Pooled Balances Investment Fund (PBIF), established to maximize total return derived from the investment of intermediate-term cash balances. Other investment categories include Working Capital, the Separately Invested Portfolio, and Pooled Life Income Funds. The fair value of these assets as of June 30, 2007 is shown in Table 6 below.

Table 6. Investment Pools/Categories (at fair value at June 30, 2007)

<u>Pool/Category</u>	<u>Amount</u>
Working Capital	\$3,807,000
Intermediate-term (PBIF)	\$609,353,000
Long-Term Investment Pool (LTIP)	\$5,197,503,000
Separately Invested Portfolio	\$478,902,000
Pooled Life Income Funds	\$16,935,000
Other	<u>\$62,725,000</u>
Total	\$6,369,225,000

Reference: The Cornell University Financial Report, 2006-07, page 42.
(http://www.accounting.cornell.edu/CM_Images/Uploads/ACT/AnnualReport06-07.pdf)

Cornell tailors its investment strategies around these pools and categories. For example, the high turnover in working capital necessitates a short-term approach, while the assets of the LTIP are invested for the long term. Individual agreements governing many of the funds in the separately invested portfolio and life income funds often dictate the investment approach that is applied. Ninety-two percent of Cornell's endowment is invested in the LTIP, and in turn, 96% of the LTIP is made up of endowments. Thus, the LTIP's investment and payout policies govern the level of resources that are made available annually for most endowments. For clarity (and because this is how these assets are managed), Cornell has based its answers to the questions about endowment investment strategy, performance, and payout policy based either on its overall investment portfolio or the specifics of the LTIP. Table 7 below reconciles the differences between Cornell's endowment and its LTIP.

The university employs a unit method of accounting for the LTIP. Each participating fund enters into and withdraws from the pooled investment account based on monthly unit market values. At June 30, 2007, the fair value per unit was \$66.62. Payout is also managed on a unit basis. Cornell's trustees declare a payout per share in advance of the start of the fiscal year, and each fund receives programmatic payout based on the number of unit shares that it "owns" in the pool. (See below for a description of the payout-setting process.)

Table 7. Reconciliation of Endowment and LTIP (at June 30, 2007)

	<u>Amount</u>
Total Endowment	\$5,424,733,000
Separately Invested Endowments	(\$139,064,000)
Contributions Receivable * and Bequests	(\$135,757,000)
Funds Held in Trust by Others †	<u>(\$177,691,000)</u>
Endowment Funds in the LTIP	\$4,972,222,000
Non-Endowment Funds in the LTIP	<u>\$225,281,000</u>
Total LTIP	\$5,197,503,000
Percent of Endowment in the LTIP	92%
Percent of the LTIP that is Endowment	96%

* *Unconditional written or oral promises to donate funds in the future that will be treated as endowment.*

† *Funds that the university neither possesses nor controls but which provide Cornell income or in which the university has a beneficial interest in the assets.*

The LTIP's current payout policy, which was enacted by the trustees in 1988-89 and revised several times through to 1998-99, has the following provisions:

- Payout is set in advance by the trustees as part of the budget process. Total payout for the LTIP consists of programmatic payout plus payout for the general and stewardship costs of the programs supported by the LTIP.
- The proposed programmatic payout for a coming fiscal year is normally 5% greater than the prior fiscal year as long as that increase allows programmatic payout to remain within a defined target range of 4.4% of a twelve-quarter rolling average of LTIP unit share values, plus or minus 75 basis points. The additional payout for general and stewardship costs represents 0.46% of that rolling average. As the rolling average of unit share values extends through the end of the prior fiscal year and the trustees normally declare the programmatic payout in January, the final two quarters of the average are estimated.
- In lieu of the normal 5% annual increase in programmatic payout, the trustees sometimes make step adjustments—both up and down, based on prior investment performance and current market conditions—to maintain the total payout within its target boundaries. As the general and stewardship cost component of payout is a fixed fraction of programmatic payout, it rises and falls with any step adjustment made in programmatic payout.
- Overall spending from the LTIP includes total payout as well as internal investment management expenses and external management fees.

The university's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the world equity, fixed income, commodities, real estate, and private equity markets. Based on guidelines established by the Investment Committee, the university's Investment Office directs the investment of endowment and trust assets, certain working capital, and temporarily invested expendable funds. The trustees have established short- and long-term targets for various asset classes, delineating upper and lower ranges for each. The portfolio is rebalanced periodically to maintain asset classes within these limits.

The investment objective is to achieve a total return, net of investment expenses, of at least 5% in excess of inflation, as measured by a rolling average of the Consumer Price Index. Achieving favorable returns enables the university to distribute increasing amounts over time from its investments so that present and future needs can be treated equitably in inflation-adjusted terms.

Reference: See page 42 of the Cornell University Financial Report, 2006-07 for a description of the LTIP.
(http://www.accounting.cornell.edu/CM_Images/Uploads/ACT/AnnualReport06-07.pdf)

5c) What is the mission of your university's endowment?

Response: Building on the vision of Cornell University's founder, Ezra Cornell, who aspired to build "an institution where any person can find instruction in any study," the general principle of Cornell's endowment is to support those two fundamental themes: enabling access and providing a comprehensive range of academic offerings and activities.

Endowments provide Cornell with a stable flow of operating revenues that funds core academic activities like instruction and research and allows the institution to admit and educate students from a wide variety of economic backgrounds. Endowed professorships, like the Frank H.T. Rhodes Professorship of Humane Letters, permit the university to hire and retain excellent, world-class scholars. As a case in point, Nobel Laureate Roald Hoffmann holds that professorship. Professor Hoffmann has taught primarily undergraduates at Cornell, and almost every year since 1966 he has taught first-year general chemistry. Some undergraduate financial aid endowments have special terms that allow the institution, within the framework of need-based aid, to recognize superior academic achievement. For example, the John McMullen Scholarship is awarded to students with potential for exceptional success at Cornell and in the field of engineering. The scholarship is named for John McMullen, who was the president of the Atlantic Gulf & Pacific Dredging Company. Although not a Cornellian himself, on the advice of a friend who was, McMullen bequeathed his estate to Cornell to provide scholarships for engineering students. The first McMullen Scholar entered Cornell in 1925. Receiving this honor places students in a select group of individuals who received McMullen support during their undergraduate years at Cornell.

Cornell's endowment is made up of approximately 6,800 separate funds (as of December 31, 2007). Most have individual uses—some imposed by donor restrictions—that limit or prevent payout from being used in a fully fungible manner. The most common restrictions are tied to the purpose of a fund. A fund may be limited for use by a specific college or department within Cornell or the donor agreement may provide that the payout be reinvested as new principal when the purpose of the endowment gift cannot be executed (e.g., payment of salary that cannot be made when an endowed professorship is vacant due to turnover). Thus each of Cornell's approximately 6,800 endowment funds has its own mission, and only the most generalized phrases can describe all of them collectively.

In addition, New York State law mandates honoring donor distinctions and restrictions:

(b) Except as may be otherwise permitted under article eight of the estates, powers and trusts law or section 522 (Release of restrictions on use or

investment), the governing board shall apply all assets thus received to the purposes specified in the gift instrument and to the payment of the reasonable and proper expenses of administration of such assets. The governing board shall cause accurate accounts to be kept of such assets separate and apart from the accounts of other assets of the corporation. Unless the terms of the particular gift instrument provide otherwise, the treasurer shall make an annual report to the members (if there be members) or to the governing board (if there be no members) concerning the assets held under this section and the use made of such assets and of the income thereof.

Reference: See the Laws of New York State, Not-For-Profit Corporation Law (Article 5, §513.b). (<http://public.leginfo.state.ny.us/menuf.cgi>)

5d) *When was the last time that the university's endowment policy was reviewed?*

Response: The university's LTIP payout policy was last reviewed and changed for the fiscal year beginning 1998-99. The institution regularly checks the validity of the policy's assumptions as it sets payout for the coming year.

Investment strategy is reviewed annually by the Investment Committee of the Board of Trustees, and fine-tuned as needed in terms of the portfolio mix. The fundamental approach used for long-term investment—that of seeking the best total return within reasonable levels of risk—has been in place since 1988-89.

5e) *When will it next be reviewed?*

Response: Both of these policies will be reviewed as circumstances dictate.

6a) *Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars).*

Response: This question has been answered for both the endowment (Table 8 below) and the LTIP (Table 9 below).

Table 8. Endowment (net assets at fiscal year end)

<u>Year</u>	<u>Net Assets</u>	<u>Change from Prior Year</u>	<u>% Change</u>
1997-98	\$2,564,139,000	\$409,025,000	19.0%
1998-99	\$2,905,741,000	\$341,602,000	13.3%
1999-00	\$3,436,928,000	\$531,187,000	18.3%
2000-01	\$3,210,370,000	(\$226,558,000)	(6.6%)
2001-02	\$2,920,154,000	(\$290,216,000)	(9.0%)
2002-03	\$2,914,641,000	(\$5,513,000)	(0.2%)
2003-04	\$3,314,228,000	\$399,587,000	13.7%
2004-05	\$3,859,610,000	\$545,382,000	16.5%
2005-06	\$4,385,161,000	\$525,551,000	13.6%
2006-07	\$5,424,733,000	\$1,039,572,000	23.7%

Table 9. LTIP (market value at fiscal year end)

<u>Year</u>	<u>Market Value</u>	<u>Change from Prior Year</u>	<u>% Change</u>
1997-98	\$2,427,635,000	\$392,837,000	19.3%
1998-99	\$2,760,263,000	\$332,628,000	13.7%
1999-00	\$3,287,965,000	\$527,702,000	19.1%
2000-01	\$3,043,876,000	(\$244,089,000)	(7.4%)
2001-02	\$2,750,401,000	(\$293,475,000)	(9.6%)
2002-03	\$2,720,790,000	(\$29,611,000)	(1.1%)
2003-04	\$3,070,235,000	\$349,445,000	12.8%
2004-05	\$3,623,192,000	\$552,957,000	18.0%
2005-06	\$4,180,389,000	\$557,197,000	15.4%
2006-07	\$5,197,503,000	\$1,017,114,000	24.3%

Reference: The Cornell University Financial Reports, various years.
(http://www.accounting.cornell.edu/View_Annual_Reports.cfm)

6b) What is the amount of donations the endowment has received year-by-year for the last ten years?

Response: Gifts to the endowment are shown in Table 10 below. In accordance with generally accepted accounting principles, Cornell includes in the category of “gifts to endowment” any changes in pledge (contributions receivable) balances for endowments as well as gifts to outside trusts. Pledge balance changes may be positive or negative.

Table 10. Gifts to Endowment (including pledge balance adjustments)

<u>Year</u>	<u>Amount</u>
1997-98	\$81,943,000
1998-99	\$95,094,000
1999-00	\$113,619,000
2000-01	\$80,354,000
2001-02	\$103,609,000
2002-03	\$55,090,000
2003-04	\$153,646,000
2004-05	\$121,158,000
2005-06	\$81,603,000
2006-07	\$191,120,000

6c) Please provide the percentage of investment in each asset class (equity, fixed income, hedge funds, private equity, venture capital, etc.) and the amount invested outside the United States.

Response: The breakdown by asset class for Cornell's overall investment portfolio (described above in answer to question 5b) is shown in Table 11 below.

Table 11. Investments at Fair Value (at June 30, 2007)

<u>Asset Class</u>	<u>Amount</u>	<u>% of Total</u>
Cash and Cash Equivalents	\$137,757,000	2.20%
Domestic Equities	\$923,789,000	14.50%
Foreign Equities	\$1,097,843,000	17.20%
Absolute Return	\$519,094,000	8.20%
Hedged Equities	\$1,299,482,000	20.40%
Fixed Income	\$728,462,000	11.40%
Private Equities	\$738,445,000	11.60%
Real Assets	\$892,774,000	14.00%
Other	<u>\$31,579,000</u>	<u>0.50%</u>
Total	\$6,369,225,000	100.0%

As noted in Table 11 above, 17.2% of the overall investment portfolio on June 30, 2007 was invested in foreign equities. In addition, Cornell invests in partnerships and other entities that invest outside the United States. Cornell estimates that its overall foreign investments (equities and indirect investments through partnerships) approximates between 30% to 35% of its investment portfolio. This range includes the 17.2% of foreign equities noted above.

Reference: The Cornell University Financial Report, 2006-07, page 41.
(http://www.accounting.cornell.edu/CM_Images/Uploads/ACT/AnnualReport06-07.pdf)

7a) Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined?

Response: Cornell's endowment, which is reported using generally accepted accounting principles, is composed of funds invested by the university and resources managed externally. (See Table 12 below.) There are two types of endowment:

- *True endowments* are those funds that have been established by donor intent to be invested (generally *in perpetuity*), with the earnings being used to support the purposes of the endowment. Normally, the principal of true endowments may not be invaded and must be invested in a manner that reasonably protects its basis or book value.

- *Funds functioning as endowment* are primarily otherwise spendable monies that the university's trustees have set aside to be invested in an endowment-like manner. Unlike true endowment, the principal of funds functioning may be expended at the discretion of the trustees.

The externally managed assets include a contributions receivable portion that is part of true endowment and a set of funds that are held in trust by external agents and in which Cornell has a beneficial interest.

Table 12. Endowment Net Assets at June 30, 2007

	<u>Amount</u>
True Endowment	\$3,459,072,000
Funds Functioning as Endowment	<u>\$1,652,213,000</u>
Subtotal Under Cornell Investment Management	\$5,111,285,000
Contributions Receivable * and Bequests	\$135,757,000
Funds Held in Trust by Others †	<u>\$177,691,000</u>
Subtotal Funds External to Cornell	\$313,448,000
Total University Endowment	\$5,424,733,000

* *Unconditional written or oral promises to donate funds in the future that will be treated as endowment.*

† *Funds that the university neither possesses nor controls but which provide Cornell income or in which the university has a beneficial interest in the assets.*

7b) Are there any other long-term investments that are not included in the endowment as reported to NACUBO?

Response: Yes. The amount reported to NACUBO for 2006-07 was \$5,424,733,000. For the same period, Cornell's overall investment portfolio was valued at \$6,369,225,000. (See Table 6 above for a breakdown of these funds.) Most of these assets were invested for the long-term.

7c) If so, what are they and what are their values?

Response: As detailed in Table 6 above, in addition to the LTIP (\$5,197,503,000), Cornell's other long-term investment categories include the PBIF (\$609,353,000), the Separately Invested Portfolio (\$478,902,000), Pooled Life Income Funds (\$16,935,000), and other miscellaneous categories (\$62,725,000). These amounts are shown at fair value as of June 30, 2007.

8) What has been the cost of management of the endowment year-by-year for the last ten years?

Response: The costs of managing the LTIP are shown in Table 13 below. These include external management fees as well as Cornell's internal management costs,

including its investment office as well as investment accounting and oversight functions. Table 13 also shows the annual totals of these costs as a percent of the LTIP's market value for the beginning of the fiscal year in which the costs were incurred. In some cases, external investment managers incurred costs that were netted from the investment proceeds delivered to the university.

Table 13. LTIP Investment Management Costs

<u>Year</u>	<u>External Management Fees</u>	<u>Internal Management Costs</u>	<u>Total Management Costs</u>	<u>Total Management Costs as a % of Beginning Market Value</u>
1997-98	\$7,146,000	\$1,328,000	\$8,474,000	0.4%
1998-99	\$6,513,000	\$1,809,000	\$8,322,000	0.3%
1999-00	\$6,691,000	\$2,210,000	\$8,901,000	0.3%
2000-01	\$6,827,000	\$2,225,000	\$9,052,000	0.3%
2001-02	\$5,910,000	\$2,141,000	\$8,051,000	0.3%
2002-03	\$5,098,000	\$2,678,000	\$7,776,000	0.3%
2003-04	\$5,794,000	\$3,435,000	\$9,229,000	0.3%
2004-05	\$8,247,000	\$4,079,000	\$12,326,000	0.4%
2005-06	\$10,503,000	\$4,870,000	\$15,373,000	0.4%
* 2006-07	\$10,884,000	\$6,456,000	\$17,340,000	0.4%

* Beginning in 2006-07, Cornell's Board of Trustees significantly restructured the university's Investment Office, increasing the number of staff and the quality of oversight of external investment managers and partners. The Board of Trustees also imposed a cap on internal investment costs vis-à-vis the investment portfolio, and actively manages against this limit.

9a) What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years?

Response: The average payout for the period 1997-98 through 2006-07 was 5.1%. At Cornell, the total LTIP payout consists of the monies released during the fiscal year to support the programmatic costs of an individual endowment's purpose and a distribution for the attendant general and stewardship support of these activities. The investment management costs itemized in Table 13 above and excluded in Table 14 below are separate from this total payout. For purposes of answering this question, total payout as a percent of market value is shown for the beginning of the fiscal year in which the total payout was applied, in keeping with the 2007 NACUBO convention on the reporting of spending rates:

As a guideline, the calculated spending rate is the percentage of the beginning market value of the investment pool that is made available annually for spending. The rate is calculated net of any expenses for managing and administering the endowment.

Table 14. LTIP – Total Payout

<u>Year</u>	<u>Total Payout</u>	<u>Total Payout as a % of Beginning Market Value</u>
1997-98	\$75,573,000	3.7%
1998-99	\$104,186,000	4.3%
1999-00	\$115,851,000	4.2%
2000-01	\$142,578,000	4.3%
2001-02	\$177,487,000	5.8%
2002-03	\$185,230,000	6.7%
2003-04	\$173,663,000	6.4%
2004-05	\$169,653,000	5.5%
2005-06	\$186,779,000	5.2%
2006-07	\$205,012,000	4.9%

9b) What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years?

Response: The average targeted payout for the period 1997-98 through 2006-07 was 5.1%. The trustee policy on distributions from the LTIP targets total payout at 4.86% (4.4% programmatic payout plus 0.46 % payout for the general and stewardship costs of the programs supported by the LTIP) of a twelve-quarter rolling average of unit share values \pm 75 basis points. A total payout rate for a coming year could be as low as 4.11% of that rolling average or as high as 5.61% and remain within trustee policy guidelines.

The Board of Trustees establishes a payout rate (target) for a coming fiscal year five months in advance of the start of that fiscal year. The trustees measure that payout against a largely retrospective rolling average of market values in order to smooth out the fluctuations of investment factors that can greatly vary the LTIP's market valuations. Table 15 below lists those targeted payout amounts per share, the increase in the payout amount per share from the prior year, the twelve-quarter rolling average of unit share values through the end of the prior fiscal year, and the percent that those payouts were of each corresponding average market value (e.g., \$2.63 for 2006-07, which the trustees measured against the twelve-quarter average through June 30, 2006).

Table 15. LTIP – Total Payout Targets

<u>Year</u>	<u>Total Payout Per Share</u>	<u>Change in Total Payout Per Share From Prior Year</u>	<u>Rolling Average of Unit Share Market Values</u>	<u>Total Payout as a % of 12-Quarter Rolling Average</u>
1997-98	\$1.48	11.9%	\$33.95	4.4%
1998-99	\$1.93	30.2%	\$39.23	4.9%
1999-00	\$2.05	6.1%	\$43.56	4.7%
2000-01	\$2.43	18.5%	\$49.25	4.9%
2001-02	\$2.90	19.4%	\$52.47	5.5%
2002-03	\$2.90		\$52.62	5.5%
2003-04	\$2.63	(9.4%)	\$48.49	5.4%
2004-05	\$2.35	(10.8%)	\$45.33	5.2%
2005-06	\$2.48	5.5%	\$45.29	5.5%
2006-07	\$2.63	6.1%	\$49.22	5.3%

9c) If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body.

Response: While year-to-year total payout rates targeted by Cornell varied from a low of 4.4% to a high of 5.5%, they averaged 5.1% over the period. (See Table 15 above.) Actual spending rates (using NACUBO's definition) also varied over the period (from a low of 3.7% to a high of 6.7%). They also averaged 5.1% over the period. (See Table 14 above.)

9d) If there is a material variation between actual and targeted, please explain.

Response: Actual rates varied more than targeted rates because the actual rates are based on a single sampling point for the divisor (the beginning-year market value) whereas the targeted rates use a smoothing-rule average of a 12-quarter sample for the divisor, which tends to average out peaks and troughs. Cornell's investment portfolio experienced significant swings in valuation during this particular ten-year period as the dot-com bubble grew and burst. The university also modified and rebalanced its investment portfolio over this period, which also influenced market values. These are differences of timing not substance, as the payout per share that is declared by the trustees is in fact the payout per share that is used throughout the fiscal year. And that payout rate is shaped not only by earnings to date but what the trustees expect to happen over the near term. Both tell the same story that, in fact, Cornell planned and has had an average total payout of slightly over 5% of market value during this period.

Cornell's use of a smoothing rule, if left on autopilot, will always result in lower-than-average distributions during bull markets and higher-than-average

distributions during bear markets. Cornell’s trustees do not allow the smoothing rule to run on autopilot, and make step adjustments in the payout rate as circumstances dictate. For example, the payout rate per share for 2007-08 was originally scheduled to increase 5.3% from 2006-07’s rate. In June 2007, based on strong investment performance to date, the trustees adjusted the payout rate for 2007-08 so that it would represent a 9.9% increase from the prior fiscal year’s level. The data in the third column of Table 15 above lists the adjustments that the trustees made in the payout rate annually in response to changing market conditions and with a view of maintaining total payout at or near the long-term 4.86% target.

9e) What were the top 10 major expenditures from the endowment last year?

Response: Expenditures made from endowment funds followed, in proportion, the use categorizations of endowment principal. Table 16 below provides a list of the major categories of Cornell’s endowment, based on the restrictions placed by donors and the uses to which unrestricted payout has been put.

Table 16. Endowment Principle Categorized by Use (June 30, 2007 market value)

<u>Category</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>% of Total</u>
Academic Programs	\$568,540,000	\$1,143,509,000	\$1,712,049,000	31.6%
Student Aid *	\$200,929,000	\$1,070,694,000	\$1,271,623,000	23.4%
Position Support †	\$351,793,000	\$551,812,000	\$903,605,000	16.7%
General Purpose	\$593,466,000		\$593,466,000	10.9%
Facilities	\$38,108,000	\$87,981,000	\$126,089,000	2.3%
Student Services	\$16,155,000	\$98,304,000	\$114,459,000	2.1%
Libraries	\$9,897,000	\$54,949,000	\$64,846,000	1.2%
Public Service	\$15,209,000	\$23,702,000	\$38,911,000	0.7%
Institutional Support	\$31,226,000	\$5,113,000	\$36,339,000	0.7%
Miscellaneous Categories	<u>\$136,793,000</u>	<u>\$113,104,000</u>	<u>\$249,897,000</u>	<u>4.6%</u>
Subtotal Categorized	\$1,962,116,000	\$3,149,168,000	\$5,111,284,000	94.2%
Outside Trusts, etc. §		<u>\$313,449,000</u>	<u>\$313,449,000</u>	<u>5.8%</u>
Total	\$1,962,116,000	\$3,462,617,000	\$5,424,733,000	100.0%
% of Total	36.2%	63.8%		

* “Student Aid” includes undergraduate, graduate, and professional student populations and encompasses support for grant aid, loans, and work/study opportunities as well as graduate fellowships and tuition remission programs.

† “Position Support” is composed primarily of endowed professorships designed to support faculty positions.

§ “Outside Trusts, etc.” includes restricted outside trusts, pledges, and bequests where the specific purpose of restriction is not available.

10a) How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor?

Response: As illustrated in Table 16 above, \$3,462,617,000, or 63.8%, of Cornell's endowment of \$5,424,733,000 was subject to permanent spending restrictions or limitations set by the original donor as of June 30, 2007.

10b) Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships?

Response: Of the \$3,462,617,000 of endowment assets subject to permanent spending restrictions or limitations (as reported above in Table 16), \$1,070,694,000 is categorized as "student aid." Student aid includes undergraduate, graduate, and professional student populations and encompasses support for grant aid, loans, and work/study opportunities as well as graduate fellowships and tuition remission programs. A total of \$981,680,000, or 28.4% of the \$3,462,617,000 is further limited to grant aid as opposed to student loans and student prizes. (Student prizes are small, non-need-based awards that are given primarily at graduation to recognize exemplary academic achievement.)

All undergraduate financial aid at Cornell is need-based. Graduate and professional student financial aid is awarded based on financial need and merit (although the bulk of it is need-based). The "grant aid" category represented by the \$981,680,000 figure is not pure, however, as some endowments so characterized can be used for both grants and loans (and in some cases, variably from year to year). Also, in accordance with the terms of individual gift agreements, some endowments can be used to support both undergraduate and graduate/professional students, and the proportion of such aid can vary among these populations annually.

10c) What portion is restricted for undergraduate financial aid?

Response: Of the \$3,462,617,000 of endowment assets subject to permanent spending restrictions or limitations (as reported above in Table 16), endowments totaling \$750,332,000, or 21.7%, provided payout to support undergraduate financial aid (grant aid, loans, and work/study opportunities). As noted above in the answer to question 10b, the payout from some of this endowment principal may have provided support for graduate and professional students as well in 2006-07.

10d) Please provide the top five types of restrictions on the endowment by category.

Response: Table 17 below provides a list of the five major types of endowment restrictions by market value of category.

Table 17. Endowment Restrictions (June 30, 2007 market value)

<u>Restriction Category</u>	<u>Amount</u>
Academic Programs	\$1,143,509,000
Student Aid *	\$1,070,694,000
Position Support †	\$551,812,000
Student Services	\$98,304,000
Facilities	\$87,981,000

* “Student aid” includes undergraduate, graduate, and professional student populations and encompasses support for grant aid, loans, and work/study opportunities as well as graduate fellowships and tuition remission programs.

† “Position Support” is composed primarily of endowed professorships designed to support faculty positions.

10e) What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official—such as a set-aside for a specific program?

Response: As can be seen in Table 16 above, 36.2% of Cornell’s total endowment is unrestricted. Of the total unrestricted amount, 30.2% is available for the general purpose use of the institution and the remaining 69.8% has a designation or limitation as to use that was placed on it by decisions of the Board of Trustees or its delegatee, the university’s president.

10f) Please provide the investment return to the endowment year-by-year for the last ten years.

Response: Table 18 below shows the investment return for the LTIP. As noted in Table 7 above, almost all of the endowment is invested in this pool.

Table 18. LTIP – Return (net of external management fees)

<u>Year</u>	<u>Return</u>
1997-98	18.5%
1998-99	12.2%
1999-00	18.5%
2000-01	(6.7%)
2001-02	(7.7%)
2002-03	1.9%
2003-04	16.1%
2004-05	13.6%
2005-06	16.1%
2006-07	25.9%

The annualized average return for this period was 10.2%. The change in LTIP market values referenced above in Table 9 differs from the investment return shown in Table 18 as the data in Table 9 includes not only investment returns but also reflects the impact of additions and withdrawals of principal and annual payout.

Reference: The Cornell University Financial Reports, various years.
(http://www.accounting.cornell.edu/View_Annual_Reports.cfm)

11a) Please explain the fee arrangement to investment advisors.

Response: Fees vary widely among asset classes. All fees paid, however, are negotiated and determined by the Investment Office, with advice from counsel and under the general oversight of the Board of Trustee's Investment Committee. Fees are outlined as part of the investment management or subscription agreement between Cornell and the advisor/manager.

11b) How is the fee and compensation measured and determined?

Response: Fees are measured and determined according to industry standards, within major asset classes. For example, traditional asset class manager fees range from 35 basis points (after eleemosynary discounts) to 150 basis points. Alternative asset class fees range from 100 basis point plus 15% to 30% of carried interest. Manager returns are measured against pre-determined benchmarks, on an after-fee basis.

11c) What is the process to review reasonableness of the fee and compensation and what comparables are used?

Response: Compensation and fee review is part of Cornell's overall due diligence process when considering the merit of an investment opportunity. Industry standards, regional focus, and investment type are taken into account when assessing reasonableness for any fee structure—all of which occurs under the general oversight of the Board of Trustee's Investment Committee.

11d) Who reviews and approves the fee?

Response: The Investment Committee of the Board of Trustees reviews and approves all investments and related terms, including fees and appropriate benchmarking. The Investment Office oversees the fee payment and ensures compliance with terms negotiated.

11e) Who pays the fee (the endowment, general funds)?

Response: Management fees are accumulated along with other investment-related expenses (such as investment accounting and oversight costs) and then apportioned among several investment pools using fair-share proration.

11f) Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager.

Response: There is no direct relationship between Cornell University's endowment size and/or growth and the compensation provided to Cornell's president. The president's compensation is established and maintained by the Board of Trustees. They take into consideration the incumbent's qualifications and performance towards pre-established institutional goals, within a market-competitive range. That range is defined by presidential compensation among peer institutions and considers broad scope data including undergraduate enrollment, graduate enrollment, annual operating budget, annual research budget, advanced degree graduates, faculty headcount, staff headcount and endowment size. The current and former presidents' compensation arrangements do not provide any opportunity for earned incentive payments in relation to any aspect of the role's responsibilities.

In 2006, Cornell implemented a compensation plan for its Chief Investment Officer (CIO). The CIO's compensation is established and maintained considering incumbent qualifications and performance within a market-competitive range. That range is defined by compensation received by top investment officers employed at peer institutions having a similarly sized and similarly managed endowment.

Under the plan implemented in 2006:

- The CIO's compensation consists of a base salary and the opportunity to earn incentive pay based on a combination of quantitative investment performance results and the accomplishment of established annual qualitative performance goals.
- Investment performance returns are evaluated in relationship to standard investment industry benchmarks. The quantitative incentive component of the CIO's pay is based on the fund's performance as compared to pre-established industry benchmarks; it is not calculated on the fund's aggregate growth.

11g) Please list what endowment-related bonuses, if any, either the college or university president or the investment manager has received year-by-year for the last ten years.

Response: The current CIO was hired in 2006 and has not yet received any incentive payments based on entity performance. The first opportunity for such incentive is anticipated to occur based upon 2008 entity performance. Former incumbents employed in the CIO role from 1997 to 2006 did not receive any incentive payments based upon the performance of the endowment.