

# Cornell College

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## WHITE PAPER SERIES

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“Endowment giving reflects a belief that Cornell will exist forever and that future generations of Cornellians should enjoy the same quality or better opportunities and experiences as the current one.”

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### **Putting the Important—Cornell’s Endowment—before the Urgent**

Most people have heard us say that Cornell’s endowment is an essential financial bedrock, it is the financial foundation for our institution and its future, as it may be for any school. It is intuitive that institutions with large endowments—large investment accounts, so to speak—have a greater ability to support students and programs as well as financially weather significant ups and downs. While many of our alumni and friends have heard that the endowment is an important financial resource, they still have questions about it. What is it *precisely*? What does it really do? Is it really *that* important? (Yes! Really.) These are all great questions and reveal how complex endowments are.

The purpose of this white paper is to explain Cornell’s endowment in a manner that is approachable for all. Ultimately, it is of paramount importance that everyone understands the central role that the endowment plays at Cornell, what it makes possible, and why we must build it as our highest fundraising priority. So, with that, let’s turn to our topic.

### **Everything begins with our students**

Everything we do begins with our students and their needs. As one example, 36% of our students are Pell-eligible, which means that they come to Cornell with exceptional financial need. All of these students receive Cornell scholarships (in addition to the Pell Grant and state aid they might qualify for), and without this support, these students would not be able to attend Cornell. It is really that simple.

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As we often say—Cornell can transform a student’s life, but not if that student can’t afford to attend Cornell in the first place. Access is the gateway to opportunity and upward financial mobility for our students. It thus follows that our total financial aid budget for fiscal year 2025 is almost \$37 million, representing 47% of Cornell’s entire budget. A portion of that \$37 million is a result of your philanthropy, which, in real terms, means that you make that access possible through your philanthropy. Thank you!

In fact, thanks to many alumni and friends, Cornell has hundreds of endowed scholarships that support a part of the financial aid budget. Without those funds, far fewer students would be able to attend Cornell.

### **What is an endowment?**

As defined by the National Association of College and University Business Officers (NACUBO), “an endowment [comprises] all financial assets that are intended for the long-term support of a college or university.” Think of an endowment as a pool of funds (donated by people to an organization)—the principal, so to speak—that does not get spent by that organization but rather is invested in diversified securities, is managed with the goal that it grows in value over time, and from which we are able to, and do, use a small percentage annually. In this respect, despite a small percentage of an endowment being used annually in the operating budget, endowments are expected to grow over many years as a result of appreciation and through continued gifts that people make to the endowment.

Endowed funds can be grouped into three different categories. First, there are *restricted endowments*, which can only be used for the intent of the donor. Such endowments include those that fund *specific* initiatives, programs, and services, such as a scholarship, an internship, off-campus study, a faculty position (a chair), and even the maintenance of our campus. Similarly, when someone “endows a scholarship” they are creating an endowed fund that is restricted—it can only be used for student financial aid.

Second, *unrestricted endowments* are the result of a gift to the endowment without a specific intent from the donor and, thus, are not restricted for a specific purpose. As a result, these endowed funds can be used to support the changing priorities of Cornell and the changing needs of our students, *as we determine them*, as those needs and priorities change over time.

Third and finally, some organizations have funds that are invested similarly to their endowment, but the use of funds is determined by the entity, in our case the Board of Trustees, rather than a donor. We refer to this as the *quasi-endowment*.

And, here is what is important: many alumni and friends create these sorts of endowed funds at Cornell—both restricted and unrestricted—and these different endowed funds, *together*, are THE endowment. In fact, we have over 700 distinct endowed funds which, collectively, comprise the endowment.

### **Why is an endowment so important?**

Cornell’s endowment funds *every* aspect of the college, from general support of Cornell’s operating expenses to restricted programming such as scholarships for students, and academic and co-curricular programs like internships or academic research undertaken by students.

Cornell College pays its bills from funds that largely come from three sources: student revenue (tuition, housing and food), gifts from alumni and friends, and the endowment. Generally, net tuition (tuition less scholarships and financial aid) and housing and food represent the largest portion of revenue; approved spending from the endowment and gifts comprise the other material sources of revenue. Per Cornell’s 2023-

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2024 financial statements, student revenue represented 72%, gifts were 11%, and the endowment contributed 13% of the college's \$38.292 million revenue. (Other auxiliary revenue generated the remaining 4%.)

Within this context, the general purpose of an endowment is to generate income and growth to meet the short-term spending needs of an institution while also ensuring that that institution is viable in perpetuity. After all, the goal for the principal (corpus) of an endowment (as opposed to its growth over time) is that it is not to be touched. Rather, it is intended to provide “a much-needed and perpetual stream of income to the institution” now and into the future.<sup>1</sup> In fact, this “financial stability” is particularly vital for colleges and universities because our horizon is so distant—and, because we continually engage in activities that are not easily started and stopped (such as offering financial aid to our students, paying faculty and staff whom we hope will provide important institutional continuity for our students by spending their professional lives at Cornell, and heating and cooling our buildings).<sup>2</sup> Thus, a predictable ongoing stream of income is essential.

In any given year, a college can have a drop in student enrollment (as many schools are experiencing right now), which means an immediate reduction in available revenue in that year. The same can happen with annual gifts. When there is such a drop, a college can be forced to make cuts. Here, the endowment provides an additional source of revenue—and ideally an increasing source of revenue—that can provide support for the school and offset some of the other revenue reductions, minimizing the need, or the amount of, a reduction in the institution's overall budget.

### **How much can we spend from the endowment and how is it managed?**

Please recall that endowments are intended to be long term and to be spent like your retirement fund once you have retired—a small percentage is drawn annually so that it lasts as long as needed. Alternatively, the Cornell Fund is to be used entirely in a given academic year to support the short-term needs of that year. For endowments, colleges establish spending rates, typically between 4.5% and 5% annually, to govern endowment spending. Spending in that range is intended to meet the current needs of an institution while also growing its endowment, above inflation, to protect that institution's long-term financial strength.

It falls to a board of trustees to decide what spending amount makes the most sense in light of the circumstances surrounding a given institution. In so doing, for example, when the Cornell College Board of Trustees supports an increase to the financial aid budget for students or to salaries for faculty and staff, they pay attention to maintaining a proper balance between Cornell's current short-term spending needs and its long-term financial strength (the growth of the endowment). Achieving a healthy balance between the needs of today and the anticipated needs of the future advances the goal of intergenerational equity of the endowment.

At Cornell, per our spending policy, our core plan is to spend 5% of the three-year average of the endowment's value on an annual basis. The Board of Trustees can deviate from this plan, as needed, when external factors affect tuition revenue or costs.

The stewardship of the endowment falls within the purview of Cornell College's Board of Trustees, which it delegates, in part, to its Finance Committee. The Board sets investment policies and spending policy

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1 The Investment Committee pamphlet, AGB, Jay A. Yoder.

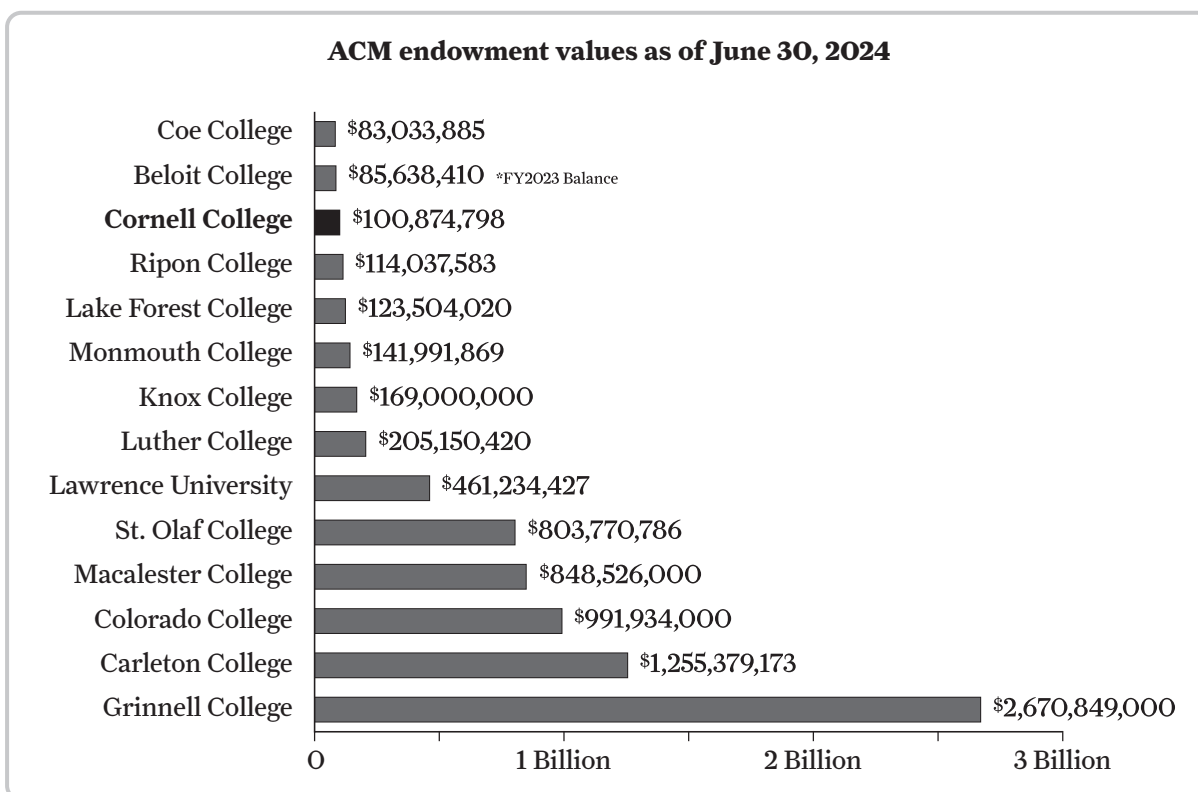
2 National Association of College and University Business Officers (NACUBO), May 2007 Report and its 2006 NACUBO Endowment Study (NES).

guidelines. The Finance Committee reviews the performance of the endowment and the work of the college's investment advisor/manager (BOK Financial) to ensure that it is following the Board's policies and reaching performance targets.

**What is the size of our endowment, and how does it compare to those of our peers?**

As of June 30, 2024, Cornell's endowment eclipsed \$100 million for the first time in our history and is at \$100,874,800. Bravo! Let's keep building it!

In 2023, 688 colleges and universities participated in a NACUBO endowment survey. The average market value for all participating institutions was \$1.2 billion while the median value was \$209.1 million.<sup>3</sup> We fall below that median, as well as below many of the endowments of other colleges in the Associated Colleges of the Midwest (ACM). These data only point to the importance of our focus on the growth of our endowment.



**What role does philanthropy play?**

Endowment fundraising is in many ways just like philanthropy that focuses on the Cornell Fund (gifts that are entirely used in that year) or on capital projects (gifts that are entirely used to undertake facilities projects). After all, alumni and friends considering any one of these types of gifts are motivated to give because they care about Cornell and our students and have the ability to make a difference.

<sup>3</sup> National Association of College and University Business Officers (NACUBO), February 2024 Report and its 2023 NACUBO-Commonfund Study of Endowments (NCSE)

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But, an endowment gift is fundamentally different from other gifts in that it provides alumni and friends the opportunity to support something now AND in a manner that will ensure that that endeavor can exist forever—in an enduring way—because the gift is placed in a permanent endowment fund. In Cornell's case, endowment giving reflects a belief that Cornell will exist forever and that future generations of Cornellians should enjoy the same quality or better opportunities and experiences as the current one. Further, many alumni make endowment gifts to Cornell because they wish to “pay forward” the support they received. That is, many Cornellians have benefited from the endowment while they were students, sometimes without even being aware of it at the time(!), and they wish to pay that debt forward by contributing to the endowment for future Cornell students.

It is easy to focus on the factual history of the endowment relative to its annual returns or spending rates. But that is not the real story of the endowment. It is philanthropy that is at the heart of the endowment. The enduring and deep affection that Cornellians such as you have for Cornell is represented in the over 700 different endowment funds that we maintain. The names of the funds reflect that Cornellians over the decades have invested in Cornell's future through their endowment gifts. There are funds named for classes going back to 1907 (a tradition that has been repeated by many classes), funds named in honor of beloved faculty members (Professors Deskin, Kollman, and Lane, to name just a few), and funds named in memory of classmates, spouses, parents, and grandparents. The endowment is a snapshot of Cornell's history and individuals' hopes for its future. It reflects the love and commitment that Cornellians have for our special corner of the world.

#### **Does our endowment really need to grow?**

Yes! As we now begin to feel the impact of the “demographic cliff,” a roughly 15% drop in the number of high school graduates nationwide over the next 15 years, we know that enrollment (and student revenue) will not resolve our financial pressures. Nor is it realistic, practical, or feasible to expect or ask our alumni and friends to give more every year to make up the difference via the Cornell Fund. This means that we need to focus on building the endowment. As our endowment grows, so does the actual dollar amount of allowable annual spending from it (one of the sources of revenue from above), which can offset the reduction in student revenue. As they say, the best time to plant a tree was 20 years ago, the next best time is today. The time to grow the endowment is now so that we can realize the benefits sooner.

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Both in good times and in challenging times, the endowment helps to ensure steady financial backing for the college's superior and expensive level of education. The key to progress is focus. And, that is what we are doing—taking strong steps to build the endowment. We are fortunate in that, unlike so many other schools, thanks to strengths including our distinctive and dynamic academic program, our unique focus on students, our updated campus facilities, and our low debt load, we are in the enviable position of being able to focus on the important: the endowment and the promise and commitment to our future students that it holds.



Jonathan Brand  
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This presidential white paper is part of a series on matters of importance to Cornellians.

I welcome any comments or observations you might have on this white paper topic.

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