

Cornell University 2008-2009 Financial Report

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Cornell University's strong financial history provides the foundation for its continuing commitment to its mission and goals. While this past year saw a significant decline in the University's endowment valuation and net assets, primarily the result of the world-wide economic conditions, these circumstances have provided a unique opportunity for Cornell to begin to "reimagining" itself.

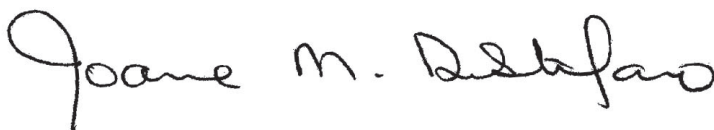
The University has been both energetic and focused in adjusting to the dramatic changes in the financial markets that have resulted in projected budget shortfalls that could span the next few years. A highly successful early retirement incentive program was offered and accepted by 432 staff members, the Ithaca campus salary improvement program was suspended for fiscal year 2010 for faculty and non-bargaining staff, an external hiring pause was implemented, base budgets and the endowment payout were reduced by 5 percent and 15 percent, respectively, and capital spending was curtailed by pausing new projects for fiscal year 2009. In addition, the University engaged a consulting firm to aid in the identification of cost savings that will assist in meeting future budget targets. Further, the University issued \$500 million of taxable debt in March 2009 to provide additional liquidity as a response to the banking credit crisis. Finally, the University developed a five-year financial strategy that will restore equilibrium without sacrificing its core mission.

Even during challenging economic times, Cornell remains committed to an accessible education as one of its top priorities. The University has demonstrated this commitment by an increase in student grants, which, unlike loans, require no repayments. In fiscal year 2009, students from families with incomes under \$60,000 were provided financial aid packages with "loan components" capped at \$3,000. For fiscal year 2010, the University's financial aid package is more generous, with, among other features, no parental contribution for families with income less than \$60,000 and assets below \$100,000.

Cornell has maintained top-quality students at all levels. The number of applications for the fall 2009 class grew from 2008 by 3.9 percent, to a total of 34,371, with an admission rate of 19 percent. 67 percent of the new class of 2013 scored 650 or above on the SAT I Critical Reading, and 82 percent scored 650 or above on the SAT I Math.

The diversity and size of the Cornell's revenue stream are two of Cornell's great strengths. Of the almost \$2.7 billion in total operating revenue, 58 percent is from grants and contracts, net tuition and fees, and the Medical Physicians' Organization. In fiscal year 2009, Cornell remained the number one recipient of total research funding in New York State, with \$507 million in sponsored research support. Cash gift and pledge payments in fiscal year 2009, the most in University history, were over \$450 million. These factors have played an important role in the University's continued ability to carry out its missions and ensure its ongoing economic impact and substantial contributions to the economic environment in New York State.

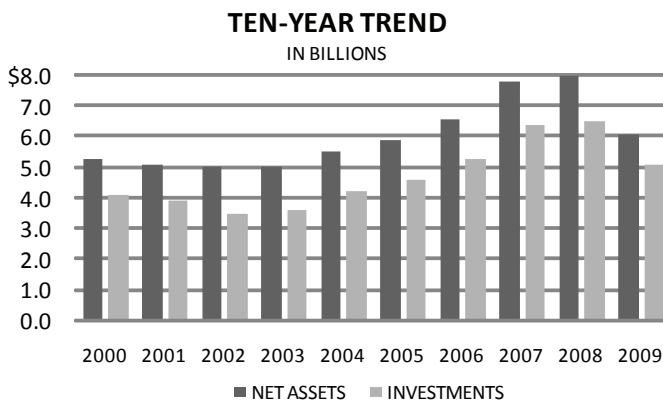
Our work is far from complete. These challenging times continue to provide us with the opportunity to reevaluate our priorities, refocus our energies, reconsider our expenditures, and reinvest in our strategic initiatives, all in an effort to position the University for the future. I am certain that Cornell is a better and stronger institution because of the extraordinary efforts of the alumni, faculty, staff, students, and trustees over this past year.



Joanne M. DeStefano
Vice President for Finance and Chief Financial Officer

OVERVIEW

Financially, this was a difficult year for the University, higher education, the national and global economies, and individual households. The University’s overall net assets declined by 24 percent, approximating the decline in U.S. household net worth, estimated by the U.S. press at between 18 and 22 percent. The single most important factor in the University’s current-year decline in “wealth” was the drop in the value of its investment portfolio. This correlation is predictable; it was precisely investment portfolio growth that was key to the increase in the University’s net assets over the previous decade. The chart below reflects the strong relationship between the change in value of Cornell’s total investment portfolio and the change in the University’s total net assets over that period.



As summarized in the Vice President and Chief Financial Officer’s overview, the university responded to this economic weakness and volatility with very important initiatives, but maintained its ongoing commitment to and expansion of student financial aid, even during a difficult period.

NEW STANDARDS, EMERGING ISSUES, AND INITIATIVES

Financial Standards Accounting Board (“FASB”)

In the current fiscal year, Cornell adopted Financial Accounting Standard No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157’s objective is transparency and comparability of financial information within and among organizations. To this end, SFAS 157 provides a definition of the term “fair value,” establishes a framework for its measurement, and requires additional disclosures. We have provided additional information about SFAS 157 in Note 1P and included the required disclosures in Notes 3 and 5 to the consolidated financial statements.

Although not a requirement, the University elected to adopt annual fair value accounting for split interest agreements under the provisions of Financial Accounting Statement No. 159 (“SFAS 159”), The Fair Value Option for Financial Assets and Financial Liabilities.

Regulatory Environment

As a major research university, Cornell is receiving government stimulus funds under the American Recovery and Reinvestment Act (“ARRA”), primarily from the National Institutes for Health (“NIH”) and the National Science Foundation (“NSF”). These funds support both research activities and the acquisition of research-related equipment. As of June 30, 2009, the University received 25 awards, with combined budgets in excess of \$9 million. The ARRA regulations require extensive reporting on this funding to ensure transparency to both the U.S. government and the public, and the University has implemented various procedures to ensure compliance.

The University is subject to new regulations in areas of security and privacy, and has undertaken plans and programs to ensure compliance related to the acceptance of credit cards under the Payment Card Industry (PCI) compliance requirements and other privacy provisions such as the US Federal Trade Commission’s “red flag” rules.

FINANCIAL YEAR IN REVIEW

Operating revenues grew in 2009, although by less than 1 percent, significantly less than the prior year’s increase of over 5 percent. In addition, for the second year in a row, operating expenses outpaced operating revenues, which resulted in operating losses both years. Cost-cutting measures implemented in fiscal year 2009 had a positive impact,

“...the university...maintained its ongoing commitment to and expansion of student financial aid, even during a difficult period.”

as overall operating expenses in fiscal year 2009 increased by only 4 percent, compared to 9 percent in the prior year. Important factors contributing to the operating loss for fiscal year ended June 30, 2009 are the decline in contribution revenue, the increase in compensation and benefit costs, and the increase in utility costs.

Operating Revenue

Gross tuition revenues increased by 4 percent, a result of authorized rate increases in effect for fiscal year 2009. The scholarship allowance increased by 14 percent, reflecting, as mentioned earlier, the University's ongoing commitment to provide grant aid for students. The scholarship allowance is narrowly defined as financial aid applied to tuition and mandatory fees. Financial aid for living expenses, as disclosed in Note 10 to the consolidated financial statements, also increased by 12 percent.

"Contributions to the University's annual fund... increased by over 13 percent, reflecting the alumni's strong, and deeply appreciated, commitment to their alma mater."

Revenues from federal appropriations declined by 6 percent during fiscal year 2009. Federal appropriations, however, are less than 1 percent of overall operating revenues. The decline in state appropriations, at 4 percent for fiscal year 2009, was more significant, as state appropriations represent 6 percent of the University's total operating revenues and 27 percent of the contract colleges. State appropriations for capital construction, as disclosed in the non-operating section of the Statement of Activities, declined by over \$28 million, or 52 percent.

The University's research faculty members are recognized nationally and internationally for their contributions to basic research and public outreach. One of the forms of recognition that lends itself to measurement is support by sponsors. Direct sponsored awards increased by almost 10 percent, and indirect cost recoveries grew by 12 percent in fiscal year 2009. Many factors affect indirect cost recoveries, including direct support, the type of expenditure incurred, the facilities and administrative recovery rate ("F & A rate") in effect when the award is received, off-campus vs. on-campus activity, and, finally, whether the award is being received by an endowed unit, a contract college unit, or the Weill Cornell Medical College and Graduate School of Medical Sciences ("the Medical College"). In fiscal year 2009, the F & A rates for endowed units, contract college units, and the Medical College were 59 percent, 54 percent, and 68 percent, respectively.

The decline in contribution revenue (56 percent for operations and 69 percent for capital acquisitions, trusts, and permanent endowment) are related to the uncertainty and volatility in the economic environment. Contributions to the University's annual fund, however, increased by over 13 percent, reflecting the alumni's strong, and deeply appreciated, commitment to their alma mater.

Investment return distributed increased by 8 percent, based on the per-share payout for its Long Term Investment Pool ("LTIP") shares authorized in the prior fiscal year, and increased distributions from its Pooled Balances Investment Fund ("PBIF"). The University monitored its permanent endowments, whose historic dollar cost was less than fair market value, ("underwater endowments"), and concluded that there was sufficient current income to support the payout to these underwater endowments.

Revenues for the Physicians' Organization grew by 12 percent, primarily from the radiology joint venture between Cornell University and New York Hospital, ("Weill Cornell Imaging at New York Presbyterian"), which accounted for over 60 percent of the total increase in revenues for the Physicians' Organization. In addition, sixteen departments experienced revenue growth from the maturation of recently hired physicians in strategic areas. Metrics indicate that improved patient satisfaction, patient retention, and the competitive edge for the Medical College's managed care contracts also contributed to revenue growth.

The 3 percent increase in revenues from auxiliary operations reflects the impact of two new dormitories on the Ithaca campus and the concomitant increase in student meal revenue. There was also a 3 percent increase in revenues for educational activities and other sales and service related primarily to the Medical College's increased revenues from various activities with New York Hospital.

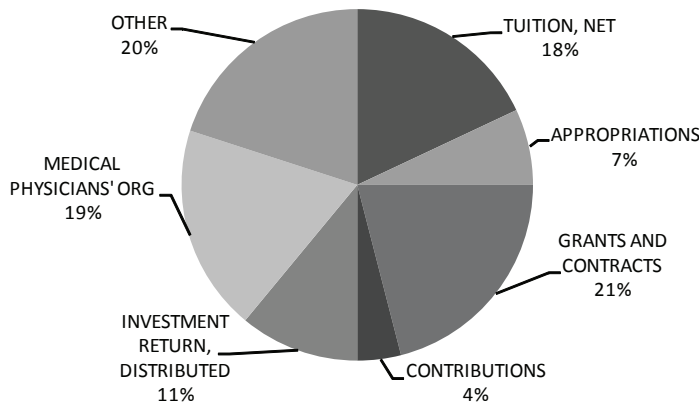
LONG-TERM INVESTMENT POOL

Source and applications (in millions)

Beginning market value
Gifts and other additions
Withdrawals
Realized and unrealized gain/(loss)
Ending market value

Unit value at year end (in dollars) *

OPERATING REVENUES



mailing. The significant increases in utility costs resulted from new buildings now in operation and significant rate increases for electricity and steam on the Ithaca campus.

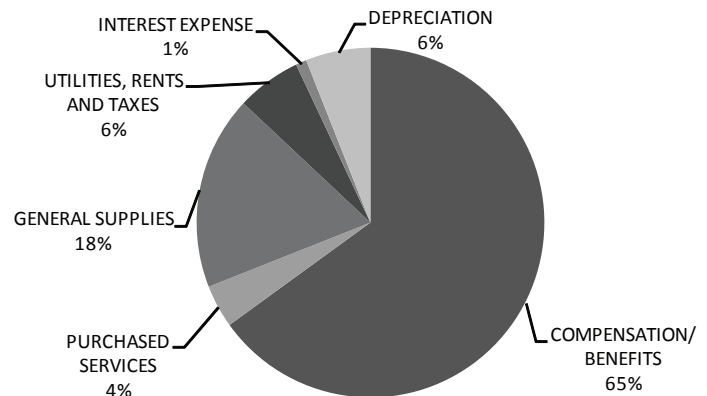
Total interest paid increased in fiscal year 2009 to \$40.8 million from \$38.1 million, based on an increase in outstanding debt. In fiscal year 2009, \$15.4 million was capitalized as part of the cost of capital assets, an increase from \$9.7 million in the prior fiscal year. Under GAAP, interest related to debt-financed capital projects must be capitalized as part of the cost of the asset on the statement of financial position and recovered over the life of the asset through depreciation. The increase in capitalized interest is affected primarily by the portion of the project that is debt financed, rather than donor or department financed. The increase in depreciation expense is a direct consequence of the increase in buildings and equipment placed into service.

Operating Expenses

Compensation and benefits are the most significant component of operating expenses. In fiscal year 2009, these increased by over 5 percent, representing 65 percent of overall operating expenses. There were two major causes of the increase: the annual salary improvement program authorized in fiscal year 2008 and in effect in fiscal year 2009 and the one-time incentive payments authorized for Ithaca's early retirement program. There were 432 employees who took advantage of this program. The cost savings from this program will be realized in fiscal year 2010.

The decline in purchased services reflects the University's commitment to reduce expenses in fiscal year 2009 as well as declines in fees for investment managers. The category of expense referred to as supplies and general includes numerous categories such as office supplies, lab supplies, computers, travel, subscriptions, conference fees, communication, and

OPERATING EXPENSES



1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
\$ 2,760.3	\$ 3,288.0	\$ 3,043.9	\$ 2,750.4	\$ 2,720.8	\$ 3,070.2	\$ 3,623.2	\$ 4,180.4	\$ 5,197.5	\$ 5,378.1
146.4	135.4	132.5	124.3	88.9	234.8	202.0	128.7	236.8	190.5
(55.5)	(84.6)	(110.5)	(128.1)	(116.4)	(37.1)	(33.7)	(125.1)	(130.1)	(340.9)
436.8	(294.9)	(315.5)	(25.8)	376.9	355.3	388.9	1013.5	73.9	(1433.4)
<u>\$ 3,288.0</u>	<u>\$ 3,043.9</u>	<u>\$ 2,750.4</u>	<u>\$ 2,720.8</u>	<u>\$ 3,070.2</u>	<u>\$ 3,623.2</u>	<u>\$ 4,180.4</u>	<u>\$ 5,197.5</u>	<u>\$ 5,378.1</u>	<u>\$ 3,794.3</u>
<u>\$ 58.16</u>	<u>\$ 51.85</u>	<u>\$ 44.95</u>	<u>\$ 42.65</u>	<u>\$ 46.51</u>	<u>\$ 50.11</u>	<u>\$ 55.42</u>	<u>\$ 66.62</u>	<u>\$ 65.37</u>	<u>\$ 45.12</u>

Non-Operating Revenues and Expenses

The source of the non-operating loss of over \$1.7 billion is based almost entirely on the realized and unrealized losses in the investment portfolio in fiscal year 2009. “Other” expenses also are market related. The market adjustment for debt swaps at June 30, 2009 of approximately \$90 million accounts for almost all of the fluctuation in “Other.” The non operating loss represents 91 percent of the University’s overall loss in the current year of \$1.9 billion.

Statement of Financial Position

The decrease in assets of 14 percent is a function of decreased pledges from donors, the result of the 2009 economic conditions. Liabilities increased by 18 percent due primarily to the strategic decision to assume additional debt for both capital projects and working capital.

During fiscal year 2009, the University saw a significant increase in “cash,” generated as a strategic goal to enhance liquidity. GAAP requires that investments purchased with an original maturity of 90 days or less in our working capital pool be classified as cash and cash equivalents on the statement of financial position. Therefore, at June 30, 2009, the University reclassified \$173 million from investments in working capital to cash and cash equivalents. The University’s investment strategies for fiscal year 2009 included winding down its securities lending program. This is reflected in the major decrease in the amount of collateral for securities lending. In addition, the University recorded a realized loss of \$2.4 million on an underlying investment purchased with this cash collateral. Although the directives to the financial institution handling the University’s short-term investments for this collateral clearly stated that the primary objective is “preservation of capital,” the very volatile economic environment created losses. The liability for the securities lending program is reflected at historic dollar value, the amount that must be returned to financial institutions when the securities “on loan” are returned to the University.

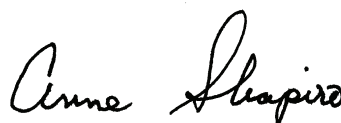
The source of the change in accounts receivable is disclosed in a detailed chart for fiscal year 2009 in Note 2A to the consolidated financial statements. The increase in the grants and contracts receivable is a function of overall increase in sponsored revenue. The swap agreements with counterparties include triggers and thresholds in which either the counterparty must deposit collateral with the University or the University must deposit collateral with the counterparty. At June 30, 2009, the University had on deposit with counterparties \$20.3 million, an increase from \$2.9 million in the prior fiscal year. There is no impact on the statement of activities, only on the statement of financial position. The other significant increase is the receivable from the State of New York for construction funds (“SUNY receivable”).

The value of land, buildings, and equipment continues its upward trend that began a few years ago, even though in fiscal year 2009 there was a construction pause for any new project, and re-approval required for ongoing projects. There are three assets with significant declines, all related directly or indirectly to market conditions: contributions receivable, investments, and the valuation of trusts held by others.

The increase in accounts payable and accrued expenses relates to the increased liability for the market adjustment for debt swap agreements. The significant decrease in deferred revenues and other liabilities relates to the \$60 million decrease in the use of the University’s line of credit at June 30, 2009. The increase in value of bonds and mortgages of \$706 million is directly related to the University’s strategic decisions about additional fixed-rate bond financing in fiscal year 2009, for the funding of projects currently under way and/or deemed essential or to ensure liquidity for working capital needs.

Summary

Fiscal year 2009 was a challenging year for the University. But the University’s response to these challenges, based on both short-term and long-term initiatives, was thoughtful, mindful, focused, and designed to provide a financial structure to continue, uncompromised, the University’s mission of education, research, and public service.



Anne Shapiro
University Controller

MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Cornell University is responsible for the preparation, integrity and fair presentation of the consolidated financial statements that have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management. The University also prepared the other information in this annual report and is responsible for its accuracy and consistency with these consolidated financial statements.

The consolidated financial statements have been audited by the independent accounting firm PricewaterhouseCoopers LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The University believes that all representations made to PricewaterhouseCoopers LLP during its audit were valid and appropriate. The independent auditors' report expresses an independent opinion on the fairness of presentation of these consolidated financial statements.

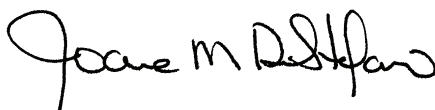
The University maintains a system of internal controls over financial reporting that is designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weaknesses in order to permit management to take appropriate, corrective action on a timely basis.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of the internal control system can change with circumstances.

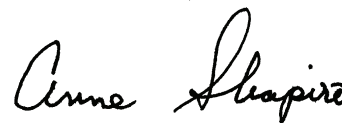
The Trustees of Cornell University through its Audit Committee, comprised of trustees not employed by the University, are responsible for engaging independent accountants and meeting with management, internal auditors, and the independent accountants to ensure that all are carrying out their responsibilities. Both internal auditors and the independent accountants have full and free access to the Audit Committee.



David J. Skorton
President
Cornell University



Joanne M. DeStefano
Vice President for Finance
and Chief Financial Officer



Anne Shapiro
University Controller

Independent Auditors' Report

The Board of Trustees
of Cornell University:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities, and of cash flows, present fairly, in all material respects, the financial position of Cornell University (“the University”) at June 30, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The summarized comparative financial statements of the University as of June 30, 2008 and for the year then ended were audited by other auditors whose report dated September 26, 2008 expressed an unqualified opinion on those statements.

As discussed in Note 1P to the consolidated financial statements as of July 1, 2008, the University adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

October 1, 2009
Rochester, New York

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2009 (in thousands)

(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2008)

	2009	2008
Assets		
1 Cash and cash equivalents	\$ 193,739	\$ 41,279
2 Collateral for securities loaned	24,970	215,854
3 Accounts receivable, net (note 2-A)	314,494	276,891
4 Contributions receivable, net (note 2-B)	425,375	666,817
5 Inventories and prepaid expenses	51,929	62,829
6 Student loans receivable, net (note 2-C)	70,535	72,284
7 Investments (note 3)	5,073,854	6,549,288
8 Land, buildings, and equipment, net (note 4)	2,846,850	2,616,230
9 Funds held in trust by others (note 5)	91,514	105,904
10 Total assets	<u>\$ 9,093,260</u>	<u>\$ 10,607,376</u>
Liabilities		
11 Accounts payable and accrued expenses	\$ 370,099	\$ 306,654
12 Payable under securities loan agreements	27,408	215,854
13 Deferred revenue and other liabilities (note 8-D)	242,409	299,283
14 Obligations under split interest agreements (note 5)	105,476	128,540
15 Deferred benefits (note 6)	429,792	425,038
16 Funds held in trust for others (note 7)	93,652	147,036
17 Bonds and notes payable (note 8)	1,705,378	999,170
18 Government advances for student loans	46,536	47,146
19 Total liabilities	<u>3,020,750</u>	<u>2,568,721</u>
Net assets (note 11)		
20 Unrestricted	3,186,340	5,129,765
21 Temporarily restricted	856,515	919,960
22 Permanently restricted	2,029,655	1,988,930
23 Total net assets	<u>6,072,510</u>	<u>8,038,655</u>
24 Total liabilities and net assets	<u>\$ 9,093,260</u>	<u>\$ 10,607,376</u>

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

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009 (in thousands)
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2008)

	Unrestricted	Temporarily Restricted
Operating revenues		
1 Tuition and fees	\$ 697,493	\$ -
2 Scholarship allowance	(220,522)	-
3 Net tuition and fees	476,971	-
4 State and federal appropriations	182,371	-
5 Grants, contracts and similar agreements		
6 Direct	430,408	-
7 Indirect cost recoveries	127,316	-
8 Contributions	64,851	29,774
9 Investment return, distributed (note 3-A)	208,302	95,809
10 Medical Physicians' Organization	504,092	-
11 Auxiliary enterprises	145,502	-
12 Educational activities and other sales and services	388,713	31
13 Net assets released from restrictions	144,373	(144,373)
14 Total operating revenues	2,672,899	(18,759)
Operating expenses (note 10)		
15 Compensation and benefits	1,845,274	-
16 Purchased services	124,471	-
17 Supplies and general	497,728	-
18 Utilities, rents and taxes	152,941	-
19 Interest expense (note 8)	26,041	-
20 Depreciation	178,046	-
21 Total operating expenses	2,824,501	-
22 Change in net assets from operating activities	(151,602)	(18,759)
Nonoperating revenues and (expenses)		
23 State and federal appropriations for capital acquisitions	26,896	-
24 Grants, contracts and similar agreements for capital acquisitions	-	-
25 Contributions for capital acquisitions, trusts and endowments	43,581	30,553
26 Investment return, net of amount distributed (note 3-A)	(1,795,810)	(9,909)
27 Change in value of split interest agreements	6,790	(19,234)
28 Pension and postretirement changes other than net periodic costs (note 6-C)	(4,815)	-
29 Other	(97,056)	209
30 Net asset released for capital acquisitions and reclassifications	28,591	(46,305)
31 Change in net assets from nonoperating activities	(1,791,823)	(44,686)
32 Change in net assets	(1,943,425)	(63,445)
33 Net assets, beginning of the year	5,129,765	919,960
34 Net assets, end of the year	\$ 3,186,340	\$ 856,515

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

Permanently Restricted	2009 Total	2008 Total	
\$ -	\$ 697,493	\$ 669,681	1
-	(220,522)	(194,071)	2
-	476,971	475,610	3
-	182,371	190,885	4
-	430,408	390,837	5
-	127,316	114,121	6
-	94,625	217,519	7
-	304,111	280,985	8
-	504,092	451,497	9
-	145,502	140,993	10
-	388,744	376,710	11
-	-	-	12
-	-	-	13
-	2,654,140	2,639,157	14
-	1,845,274	1,746,496	15
-	124,471	144,594	16
-	497,728	478,041	17
-	152,941	138,223	18
-	26,041	27,784	19
-	178,046	173,775	20
-	2,824,501	2,708,913	21
-	(170,361)	(69,756)	22
-	26,896	55,580	23
-	-	2,451	24
38,696	112,830	364,690	25
(5,888)	(1,811,607)	(109,754)	26
(9,797)	(22,241)	6,892	27
-	(4,815)	(16,481)	28
-	(96,847)	(33,432)	29
17,714	-	-	30
40,725	(1,795,784)	269,946	31
40,725	(1,966,145)	200,190	32
1,988,930	8,038,655	7,838,465	33
\$ 2,029,655	\$ 6,072,510	\$ 8,038,655	34

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009 (in thousands)

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2008)

	2009	2008
Cash flows from operating activities		
1 Change in net assets	\$ (1,966,145)	\$ 200,190
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities		
2 Contributions for capital acquisitions, trusts and endowments	(99,193)	(357,356)
3 Depreciation	178,046	173,775
4 Net realized and unrealized (gain)/loss on investments	1,578,212	(58,543)
5 Pension and postretirement changes other than net periodic costs	4,815	16,481
6 Change in value of interest rate swaps	90,162	55,194
7 Other adjustments	(11,478)	11,606
Change in assets and liabilities		
8 Accounts receivable, net	(37,603)	(28,926)
9 Contributions receivable, net	241,442	(170,907)
10 Inventories and prepaid expenses	18,153	15,116
11 Accounts payable and accrued expenses	(26,717)	79,333
12 Deferred revenue and other liabilities	(56,874)	161,020
13 Change in obligations under split interest agreements	(8,674)	1,055
14 Deferred benefits	(61)	34,000
15 Net cash provided/(used) by operating activities	<u>(95,915)</u>	<u>132,038</u>
Cash flows from investing activities		
16 Proceeds from the sale and maturities of investments	13,362,173	10,123,144
17 Purchase of investments	(13,462,513)	(10,299,858)
18 Acquisition of land, buildings, and equipment (net)	(397,502)	(456,933)
19 Student loans granted	(7,385)	(13,692)
20 Student loans repaid	9,448	9,835
21 Change in funds held in trust for others	(53,384)	(37,794)
22 Net cash used by investing activities	<u>(549,163)</u>	<u>(675,298)</u>
Cash flows from financing activities		
Contributions restricted to		
23 Investment in endowments	79,046	234,032
24 Investment in physical plant	22,032	110,120
25 Investment subject to living trust agreements	(1,885)	13,204
26 Principal payments of bonds and notes payable	(178,315)	(87,316)
27 Proceeds from issuance of bonds and notes payable	884,523	286,428
28 Bond issuance costs incurred	(7,253)	(2,769)
29 Government advances for student loans	(610)	3,271
30 Net cash provided by financing activities	<u>797,538</u>	<u>556,970</u>
31 Net change in cash and cash equivalents	152,460	13,710
32 Cash and cash equivalents, beginning of year	41,279	27,569
33 Cash and cash equivalents, end of year	<u>\$ 193,739</u>	<u>\$ 41,279</u>
Supplemental disclosure of cash flow information		
34 Cash paid for interest	\$ 40,820	\$ 38,142

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

1. SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Organization

Cornell University (“the 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 the University on behalf of New York State); and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences (“the Medical College”) in New York City. These three units are subject to the common administrative authority and control of the Cornell University Board of Trustees, but generally operate as financially discrete entities. The laws establishing the Contract Colleges at Ithaca prohibit other units 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 at the private discretion of the University. In addition to the three major organizational units, the University’s subsidiaries and certain affiliated organizations are included in the consolidated financial statements. All significant intercompany transactions and balances are eliminated in the accompanying consolidated financial statements.

B. Basis of Presentation

The accompanying consolidated financial statements have been prepared on an accrual basis in accordance with U.S. generally accepted accounting principles (GAAP), and are presented in accordance with the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Not-for-Profit Organizations. The standards for financial statements of not-for-profit organizations require a statement of financial position, a statement of activities, and a statement of cash flows, and that they be displayed based on the concept of net assets. GAAP requires presentation of revenues, expenses, gains, losses, and net assets in three categories based on the presence or absence of donor-imposed restrictions: permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets include the historical dollar amount of gifts, pledges, trusts, and gains explicitly required by donors to be permanently retained.

Temporarily restricted net assets include gifts, pledges, trusts, income, and gains that can be expended, but for which the donor 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., future capital projects, pledges to be paid in the future, life income funds). Expiration of donor restrictions is reported in the consolidated statement of activities as a reclassification from temporarily restricted net assets to unrestricted net assets on the net assets released from restrictions lines.

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.

The consolidated statement of activities presents the changes in net assets of the University from both operating and non-operating activities. Revenues and expenses that relate to carrying out the University's educational, research, and public service missions are reported as operating activities. Operating revenues include investment income and appreciation utilized to fund current operations, the largest portion of which is the distribution of endowment return as determined by the University's spending policy. The University reports as nonoperating activities investment earnings or losses net of amounts utilized in operating activities, contributions and net assets released from restrictions for endowment and facilities, and other activities not in direct support of the University's annual operations.

C. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand and in bank accounts, money market funds and other temporary investments held for working capital purposes with an original maturity term of ninety days or less. The carrying amount of cash equivalents approximates fair value because of their short terms of maturity. Cash that is part of the University's investment portfolio and awaiting investment is reported as investments and included in Note 3.

D. Collateral for Securities Loaned

The University has an agreement with its investment custodian to lend University securities to approved brokers for a fee. The securities on loan are returnable on demand and are collateralized by cash deposits that are adjusted daily based on the market value of the securities loaned. The collateral is invested in short-term securities with the goal of preserving capital, and the earnings are recorded as additional income to the investment pools. Collateral is reported as both an asset and liability of the University. The University realizes losses on any investments that are deemed permanently impaired, and may reflect the collateral reported as an asset at a value different from the University's liability for the return of the cash collateral.

E. Contributions

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the appropriate categories of net assets in the period received. A pledge is recorded at present value of estimated future cash flows, based on an appropriate discount rate determined by management at the time of the contribution. Amortization of this discount in subsequent years is included in contribution revenue. A contribution of assets other than cash is recorded at its estimated fair value on the date of the contribution. Contributions for capital projects, endowments, and similar funds are reported as nonoperating revenues. Conditional promises to donate to the University are not recognized until the conditions are substantially met.

Temporarily restricted net assets include contributions to the University and to the Cornell University Foundation, an affiliated entity that is included in the consolidated financial statements. The Foundation maintains a donor-advised fund for which the donors can make recommendations to the fund's trustees regarding distributions to the University or other charitable organizations. Distributions from the Foundation to external charitable organizations are recorded as nonoperating expenses.

F. Investments

The University's investments are recorded in the consolidated financial statements at fair value. The values of publicly traded securities are based on quoted market prices and exchange rates, if applicable. The fair value of nonmarketable securities is based on valuations provided by external investment managers. These investments are generally less liquid than other investments, and the values reported by the general partner or investment manager may differ from the values that would have been reported had a ready market for these securities existed. The University exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers, and believes the carrying amount of these assets is a reasonable estimate of fair value.

Investment income is recorded on an accrual basis, and purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using average cost for securities sold.

G. Derivative Instruments and Hedging Activities

The University has approved the use of derivatives by outside investment managers, based on investment guidelines negotiated at the time of a manager's appointment. The derivatives are used to adjust fixed income durations and rates, to create "synthetic exposures" to certain types of investments, and to hedge foreign currency fluctuations. The University

records the fair value of derivative instruments within the applicable portfolio. The change in the fair value of a derivative instrument held for investment is included in nonoperating investment return in the consolidated statement of activities.

In addition, the University holds other derivatives to manage its current and/or future long-term debt. These instruments are recorded at fair value as either prepaid or accrued expenses in the consolidated statement of financial position, and the change in fair value is recorded as other nonoperating activity in the consolidated statement of activities.

Derivatives involve counterparty credit exposure. To minimize this exposure, the University carefully monitors counterparty credit risk and requires that investment managers use only those counterparties with strong credit ratings for these derivatives.

H. Land, Buildings, and Equipment

Land, buildings, and equipment are stated in the consolidated statement of financial position at cost on the date of acquisition or at fair value on the date of donation, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset, and is reflected as an operating expense. Expenditures associated with the construction of new facilities are recorded as construction in progress until the projects are completed.

The University's collections, whether paintings, rare books, or other tangible property, have been acquired through purchases and contributions since the University's inception. They are recognized as capital assets and are reflected, net of accumulated depreciation, in the consolidated statement of financial position. A collection received as a gift is recorded at fair value as an increase in net assets in the year in which it is received.

I. Funds Held in Trust by Others

Funds held in trust by others represent resources that are not in the possession or under the control of the University. These funds are administered by outside trustees, with the University receiving income or residual interest. 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 due to the University when the irrevocable trust is established or the University is notified of its existence. Gains or losses resulting from changes in fair value are recorded as nonoperating activities in the consolidated statement of activities.

J. Split Interest Agreements

The University's split interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and charitable trusts 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 the agreements. Contribution revenue and the assets related to split interest 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 based on the terms of the agreements. Pooled income funds are recognized at the net present value of the net assets expected at a future date. Gains or losses resulting from changes in fair value, changes in assumptions and amortization of the discount are recorded as changes in value of split interest agreements in the appropriate restriction category in the nonoperating section of the consolidated statement of activities.

K. Endowments

In approving endowment spending and related policies, and in keeping with the prudent and diligent discharge of its duties, the Board of Trustees of Cornell University, as authorized by the New York Not-for-Profit Corporation Law (the "law"), has relied upon the actions, reports, information, advice, and counsel taken or provided by its duly constituted committees and the duly appointed officers of the University, including University Counsel, and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the University classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified for accounting and financial statement purposes in accordance with requirements of the Financial Accounting Standards Board and the law.

The University's investment objective for its endowment assets is to maximize total return within reasonable risk parameters, specifically, 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. The achievement of favorable investment returns enables the University to distribute increasing amounts over time from the endowment so that present and future needs can be treated equitably in inflation adjusted terms.

The University has a total distribution policy for the Long Term Investment Pool, in which most of the endowment assets are invested. Under this policy, a distribution is provided from the pool, independent of the cash yield and investment returns in a given year. This insulates both investment policy from budgetary pressures and the distribution from fluctuations in financial markets. Distributions from the pool are approved by the Board of Trustees as part of the financial planning process. The annual distribution is set so that, over time, a sufficient portion of the return is reinvested to maintain the purchasing power of the endowment and provide reasonable growth in support of programs.

The annual distributions, or payout, to endowment funds are normally five percent greater than the prior fiscal year, as long as that increase allows the payout to remain within a defined target range of a 12-quarter rolling average of the unit fair value. The trustees may occasionally make step adjustments, either incremental or decremental, based on prior investment performance and current market conditions.

Total distributions, or spending, include payout, investment expenses, and service charges that support the general and stewardship costs of the University endowment.

L. Sponsored Agreements

Revenues under grants, contracts, and similar agreements are recognized at the time expenditures are incurred. These revenues include the recovery of facilities and administrative costs, which are recognized according to negotiated predetermined rates. Amounts received in advance, in excess of incurred expenditures, are recorded as deferred revenues.

M. Medical Physicians' Organization

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

N. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Management's assumptions are primarily related to the appropriate discount rate for the purposes of fair value calculations, to allowances for doubtful accounts, and to self-insured risks. Actual results may differ from those estimates.

O. Comparative Financial Information

The consolidated statement of activities includes prior-year information in summary form, rather than by restriction class. Such information does not include sufficient detail to constitute a presentation of prior-year data in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the prior fiscal year, from which the summarized information was derived.

P. Accounting Pronouncements

Effective for the fiscal year beginning July 1, 2008, the University adopted Statement of Financial Accounting Standards No. 157: *Fair Value Measurements* (FAS 157). FAS 157 defines fair value based on the exchange price, that is, the amount that would be received if an asset were sold or the amount paid to transfer a liability, in an orderly transaction between market participants at the measurement date. It also establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements.

FAS 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the University, and unobservable inputs reflect the University's own assumptions, based on the best information available, about how market participants would value an asset or liability. Valuation techniques used to measure fair value under FAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, described below, that may be used to measure fair value, the first two of which are considered observable and the last unobservable.

Level 1 - quoted prices in active markets for identical assets or liabilities

Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

In addition, the provisions of Statement of Financial Accounting Standards No. 159: *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159) were effective July 1, 2008. FAS 159 gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The fair value option may be applied to financial assets and liabilities on an instrument-by-instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which FAS 159 has been elected are reported in earnings at each subsequent reporting date. The University elected FAS 159 for its obligations under split interest agreements.

Also effective for the fiscal year ended June 30, 2009, the University included the additional disclosures required by FASB Staff Position No. 117-1: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Although New York State has not yet adopted the provisions of UPMIFA, this FSP also requires additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. These disclosures are found in Notes 1-K and 11.

Q. Reclassifications

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

R. Income Taxes

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

2. RECEIVABLES

A. Accounts Receivable

Accounts receivable from the following sources were outstanding as of June 30:

SUMMARY OF ACCOUNTS RECEIVABLE

	<u>2009</u>	<u>2008</u>
Grants and contracts	\$ 89,594	\$ 68,305
Collateral related to interest rate swap agreements	20,341	2,857
New York Presbyterian Hospital and other affiliates	69,320	59,201
Patients (net of contractual allowances)	68,952	71,619
State of New York for capital projects	28,850	17,794
Student accounts	8,884	5,764
Other	42,993	66,514
Gross accounts receivable	<u>\$ 328,934</u>	<u>\$ 292,054</u>
Less: allowance for doubtful accounts	<u>(14,440)</u>	<u>(15,163)</u>
Net accounts receivable	<u>\$ 314,494</u>	<u>\$ 276,891</u>

The patient accounts receivable for medical services was comprised of the following at June 30, 2009 and 2008, respectively: commercial third parties 56.8 percent and 51.7 percent; federal/state government 16.7 percent and 16.8 percent; and patients 26.5 percent and 31.5 percent.

Other accounts receivable include receivables from other government agencies, matured bequests, and receivables from other operating activities.

B. Contributions Receivable

Unconditional promises to give, or pledges, are recorded in the consolidated financial statements at present value using discount rates ranging from 4 percent to 7 percent. Contributions are expected to be realized as follows:

SUMMARY OF CONTRIBUTIONS RECEIVABLE

	<u>2009</u>	<u>2008</u>
Less than one year	\$ 179,825	\$ 212,667
Between one and five years	259,448	315,095
More than five years	121,473	474,898
Gross contributions receivable	<u>\$ 560,746</u>	<u>\$ 1,002,660</u>
Less: unamortized discount	(96,531)	(300,748)
Less: allowance for uncollectible amounts	<u>(38,840)</u>	<u>(35,095)</u>
Net contributions receivable	<u>\$ 425,375</u>	<u>\$ 666,817</u>

Contributions receivable as of June 30 are intended for the following purposes:

EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE

	<u>2009</u>	<u>2008</u>
Support of University operations	\$ 137,140	\$ 297,287
Capital purposes	133,723	153,352
Endowments and similar funds	154,512	216,178
Net contributions receivable	<u>\$ 425,375</u>	<u>\$ 666,817</u>

At June 30, 2009 and 2008, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions, were approximately \$196,889 and \$165,458, respectively.

C. Student Loans Receivable

The University participates in various federal revolving loan programs, in addition to administering institutional loan programs. Loans receivable from students as of June 30 are as follows:

<u>SUMMARY OF STUDENT LOANS RECEIVABLE</u>		
	<u>2009</u>	<u>2008</u>
Federal revolving loans	\$ 46,267	\$ 48,962
Institutional loans	30,243	29,618
Gross student loans receivable	\$ 76,510	\$ 78,580
Less: allowance for doubtful accounts	(5,975)	(6,296)
Net student loans receivable	\$ 70,535	\$ 72,284

The allowance for doubtful accounts is for loans in both repayment status and those not yet in repayment status because the borrowers are still in school or in the grace period following graduation.

Student loans are often subject to unique restrictions and conditions and, therefore, it is not practical to determine their fair values.

3. INVESTMENTS

A. General Information

The University's investments are overseen by the Investment Committee of the Board of Trustees. 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 University has categorized its investment assets in accordance with the valuation hierarchy as defined by FAS 157. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for investment assets measured at fair value on a recurring basis.

Fair value for Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable.

Investments included in Level 3 primarily consist of the University's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds). The fair value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. The NAV of these investments is determined by the general partner, and is based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure that NAV is an appropriate measure of fair value as of June 30.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The University's investment holdings as of June 30, categorized in accordance with FAS 157, are summarized in the following table:

INVESTMENTS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2009 Total	2008 Total
Cash and cash equivalents	\$ 569,960	\$ 7,057	\$ -	\$ 577,017	\$ 267,836
Domestic equities	55,166	60,625	13,628	129,419	699,794
Foreign equities	177,800	4,267	44,845	226,912	911,636
Marketable alternatives	-	-	740,808	740,808	625,452
Hedged equities	16,430	-	747,315	763,745	1,252,730
Fixed income	537,797	369,808	356,578	1,264,183	898,489
Private equities	-	-	736,633	736,633	902,677
Real assets	-	-	584,039	584,039	956,468
Other	-	-	51,098	51,098	34,206
Total investments	\$ 1,357,153	\$ 441,757	\$ 3,274,944	\$ 5,073,854	\$ 6,549,288
Securities not included in investment portfolio					
Cash and cash equivalents	\$ 173,347	\$ -	\$ -	\$ 173,347	\$ -
Collateral for securities loaned	\$ -	\$ 24,970	\$ -	\$ 24,970	\$ 215,854

The following table is a rollforward of the investments classified by the University within Level 3 of the fair value hierarchy defined above:

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITY

	Fair value at June 30, 2008	Realized gains/(losses)	Unrealized gains/(losses)	Net purchases, sales, settlements	Transfers in/(out) of Level 3	Fair value at June 30, 2009
Domestic equities	\$ 14,131	\$ -	\$ 34	\$ 8	\$ (545)	\$ 13,628
Foreign equities	117,364	786	(47,123)	(26,182)	-	44,845
Marketable alternatives	625,452	(3,953)	(33,681)	152,990	-	740,808
Hedged equities	1,249,927	60,199	(324,096)	(238,715)	-	747,315
Fixed income	271,367	(74)	(39,603)	124,888	-	356,578
Private equities	902,677	15,138	(198,389)	17,207	-	736,633
Real assets	957,167	(9,171)	(346,744)	(17,213)	-	584,039
Other	34,206	652	-	(574)	16,814	51,098
Total Level 3 investments	\$ 4,172,291	\$ 63,577	\$ (989,602)	\$ 12,409	\$ 16,269	\$ 3,274,944

All net realized and unrealized gains/(losses) in the table above are reflected in the accompanying consolidated statement of activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30, 2009.

Under the terms of certain limited partnership agreements, the University is obligated to make additional capital contributions up to contractual levels. At June 30, 2009 and 2008, the University had commitments of \$1,067,403 and \$1,362,308, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses.

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 several funds established to maximize total return derived from the investment of intermediate-term cash balances. The fair values as of June 30 were as follows:

INVESTMENTS POOLS/CATEGORIES AT FAIR VALUE		
	2009	2008
Working capital	\$ 1,185	\$ 32,704
Intermediate-term	625,261	571,174
Long-term investment pool (LTIP)	3,794,336	5,378,096
Separately invested portfolio	444,266	411,614
Pooled life income funds	10,042	13,909
DASNY holdings	156,372	111,076
Other	42,392	30,715
Total	\$ 5,073,854	\$ 6,549,288

Additional information about the University's investment return for the fiscal years ended June 30 is presented in the following table:

SUMMARY OF INVESTMENT RETURN		
	2009	2008
Interest and dividends, net of investment fees	\$ 70,716	\$ 112,688
Net realized gain/(loss)	(499,093)	415,142
Net unrealized gain/(loss)	(1,079,119)	(356,599)
Total investment return	\$ (1,507,496)	\$ 171,231
LTIP distributions for operations	\$ 269,811	\$ 238,282
PBIF distributions for operations	34,681	36,506
Trust and other income for operations	(381)	6,197
Investment return, distributed	\$ 304,111	\$ 280,985
Investment return, undistributed	(1,811,607)	(109,754)
Total investment return	\$ (1,507,496)	\$ 171,231

B. Long-Term Investment Pool

The LTIP is a mutual fund-like vehicle used for investing the University's true endowment funds, funds functioning as endowment, and other funds that are not expected to be expended for at least three years. The 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 fair values. At June 30, 2009 and 2008, the fair values per unit were \$45.12 and \$65.37, respectively. The total return on the University's long-term investments, of which the LTIP is the major component, was -26.0 percent for the fiscal year ended June 30, 2009. The changes in the fair value and cost of the LTIP and information about its participating units as of June 30, 2009 and 2008 are as follows:

SUMMARY INFORMATION - LONG-TERM INVESTMENT POOL

	Fair value	Cost	Appreciation/ (depreciation)	Fair value per unit	Number of units
End of year	\$ 3,794,336	\$ 3,671,369	\$ 122,967	\$ 45.12	84,095,359
Beginning of year	\$ 5,378,096	\$ 4,267,499	\$ 1,110,597	\$ 65.37	82,269,929
Unrealized net gain/(loss) for year			\$ (987,630)		
Realized net gain/(loss) for year			\$ (445,845)		
Net gain/(loss) for year			\$ (1,433,475)		

For the fiscal year ended June 30, 2009, distributions of investment payout to participating funds totaled \$250,681 (\$3.00 per unit) of which \$223,668 was paid out for the University's operations, with the balance in the amount of \$27,013 either returned to principal or distributed to funds held for others. The distribution for the fiscal year ended June 30, 2009 was comprised of \$13,097 in net investment income and \$237,584 paid from accumulated gains. For the fiscal year ended June 30, 2008, the investment payout was \$213,048 (\$2.66 per unit), and was comprised of \$46,997 in net investment income and \$166,051 paid from accumulated gains.

C. Separately Invested Portfolio, Pooled Life Income Funds, and DASNY Holdings

The University maintains a category of assets referred to as the separately invested portfolio. This category consists of assets 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 lifetimes. On the termination of life interests, the principals become available for University purposes, which may or may not have been restricted by the donors.

University funds on deposit at DASNY consist of reserves for retirement of debt and bond proceeds not yet expended. The total funds on deposit are \$156,372 and \$122,599 as of June 30, 2009 and 2008, respectively. The amount of bond proceeds not yet expended included in the total reserves at DASNY are \$126,873 and \$107,653 as of June 30, 2009 and 2008, respectively.

D. Derivative Financial Instruments

The University has approved the use of derivatives by outside investment managers, based on investment guidelines negotiated at the time of a manager's appointment. The derivatives are used to adjust fixed income durations and rates, to create "synthetic exposures" to certain types of investments, and to hedge foreign currency fluctuations.

Certain investment transactions, including derivative financial instruments, involve counterparty credit exposure. The University's investment guidelines require that investment managers use only those counterparties with strong credit ratings for these derivatives. The fair value of the derivative investments were \$85,450 and \$48,791 at June 30, 2009 and 2008, respectively. For the fiscal years ended June 30, 2009 and 2008, the University recorded unrealized gains of \$7,071 and \$366, respectively, on derivative holdings.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are detailed as follows:

	Book value at June 30, 2008	Additions	Disposals and closed projects	Book value at June 30, 2009
Land, buildings, and equipment	\$ 2,902,213	\$ 313,560	\$ (7,956)	\$ 3,207,817
Furniture, equipment, books, and collections	933,512	81,788	(42,917)	972,383
Construction in progress	408,433	337,364	(321,549)	424,248
Total before accumulated depreciation	\$ 4,244,158	\$ 732,712	\$ (372,422)	\$ 4,604,448
Accumulated depreciation	(1,627,928)			(1,757,598)
Net land, buildings, and equipment	\$ 2,616,230			\$ 2,846,850

Certain properties to which the University does not have title are included in physical assets at net book values, as follows: (1) land, buildings, and equipment of the Contract Colleges aggregating \$428,431 and \$421,439 at June 30, 2009 and 2008, respectively, the acquisition cost of which was borne primarily by New York State and (2) land, buildings, and equipment for which titles rest with government and corporate agencies aggregating \$13,842 and \$17,296 at June 30, 2009 and 2008, respectively.

5. OBLIGATIONS UNDER SPLIT INTEREST AGREEMENTS AND FUNDS HELD IN TRUST BY OTHERS

The University elected the provisions of FAS 159 and, as a result, is required to report its obligations under split interest agreements at fair value as of June 30, 2009 and at each subsequent reporting date. In addition, the election means that the fair value of these liabilities are subject to the guidelines and disclosures required by FAS 157.

The University's interest in funds held in trust by others is considered Level 3, based on unobservable inputs, in the FAS 157 fair value hierarchy. Trusts in which the University has an income interest are valued annually using estimated cash flows based on average actual income over three years. Remainder interests are based on annual valuation reports received from the trustee. The discount rate used to estimate present value is based on the average return of investment grade corporate bonds, weighted according to a schedule of actuarial maturities.

The fair value of obligations under split interest agreements are calculated annually and considered Level 3 valuations. The discount rate used is based on a weighted average of investment grade corporate bonds using a schedule of actuarial maturities and the relative size of the agreements in the year of maturity.

The tables below summarize the fair values and activity of funds held in trust by others and obligations under split interest agreements.

SPLIT INTEREST AGREEMENTS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2009 Total	2008 Total
Remainder	\$ -	\$ -	\$ 56,515	\$ 56,515	\$ 69,190
Lead and perpetual	-	-	34,999	34,999	36,714
Total funds held in trust by others	\$ -	\$ -	\$ 91,514	\$ 91,514	\$ 105,904
Obligations under split interest agreements	\$ -	\$ -	\$ 105,476	\$ 105,476	\$ 128,540

SUMMARY OF LEVEL 3 SPLIT INTEREST AGREEMENT ACTIVITY

	Fair value at June 30, 2008	Realized gains/(losses)	Unrealized gains/(losses)	Net purchases, sales, settlements	Transfers in/(out) of Level 3	Fair value at June 30, 2009
Remainder	\$ 69,190	\$ -	\$ (17,039)	\$ 4,364	\$ -	\$ 56,515
Lead and perpetual	36,714	(1,604)	(12)	(99)	-	34,999
Total funds held in trust by others	\$ 105,904	\$ (1,604)	\$ (17,051)	\$ 4,265	\$ -	\$ 91,514
Obligations under split interest agreements	\$ 128,540	\$ -	\$ (23,064)	\$ -	\$ -	\$ 105,476

6. DEFERRED BENEFITS

A. General Information

Accrued employee benefit obligations as of June 30 include:

SUMMARY OF DEFERRED BENEFITS

	2009	2008
Postemployment benefits	\$ 24,421	\$ 21,334
Pension and other postretirement benefits	250,910	239,950
Other deferred benefits	154,461	163,754
Total deferred benefits	\$ 429,792	\$ 425,038

Other deferred benefits include primarily vacation accruals, deferred compensation, and medical benefit claims incurred but not yet reported. Accrued postemployment benefits include workers' compensation and medical continuation benefits for those on long-term disability. The University also provides various benefits to former or inactive employees after employment, but before retirement, that are recognized when they are earned.

B. Pension and Postretirement Plans

The University's employee pension plan coverage is provided by two basic types of plan: one based on a predetermined level of funding (defined contribution), and the other based on a level of benefit to be provided (defined benefit).

The primary defined contribution 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, the College Retirement Equities Fund, the Vanguard Group (Medical College only), and Fidelity Investments (Endowed Ithaca only), all of which permit employee contributions. Total pension costs of the Endowed Ithaca and Medical College plans for the fiscal years ended June 30, 2009 and 2008 amounted to \$86,959 and \$76,873, respectively.

The Medical College maintains a defined benefit plan for non-exempt employees. The defined benefit plan for exempt employees was frozen in 1976, and the accrued benefits were merged with the active non-exempt retirement plan in 1989.

In addition, certain non-exempt employees of Endowed Ithaca were covered by the Cornell University Retirement Plan for Non-Exempt Employees of the Endowed Colleges at Ithaca (NERP), a defined benefit plan. The Board of Trustees voted to terminate this frozen plan effective December 31, 2006, with all surplus assets inuring to the plan participants. During the fiscal year ended June 30, 2009, all remaining benefits and administrative costs of the terminating plan have been settled.

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

The University also 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 20 years, through fiscal year 2012-13.

C. Obligations and Funded Status

The following table sets forth the pension and postretirement plans' obligations and funded status as of June 30:

SUMMARY OF OBLIGATIONS AND FUNDED STATUS

	Pension benefits		Other postretirement	
	2009	2008	2009	2008
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	\$ 40,719	\$ 53,110	\$ 127,045	\$ 127,921
Actual return on plan assets	(6,189)	(3,930)	(22,090)	(6,212)
Employer contribution	3,462	3,000	5,589	5,336
Benefits paid	(2,516)	(1,725)	-	-
Settlements	(391)	(9,736)	-	-
Fair value of plan assets at end of year	\$ 35,085	\$ 40,719	\$ 110,544	\$ 127,045
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	\$ 57,377	\$ 59,919	\$ 350,135	\$ 326,096
Service cost (benefits earned during the period)	3,671	3,420	14,971	13,528
Interest cost	3,311	3,094	20,064	18,841
Plan amendments	-	3,132	(823)	-
Actuarial (gain)/loss	84	(727)	(36,871)	1,942
Settlements	(391)	(9,736)	-	-
Benefits paid	(2,516)	(1,725)	(11,649)	(10,272)
Projected benefit obligation at end of year	\$ 61,536	\$ 57,377	\$ 335,827	\$ 350,135
FUNDED STATUS	\$ (26,451)	\$ (16,658)	\$ (225,283)	\$ (223,090)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
	\$ (26,451)	\$ (16,658)	\$ (225,283)	\$ (223,090)
AMOUNTS RECORDED IN UNRESTRICTED NET ASSETS NOT YET AMORTIZED AS COMPONENTS OF NET PERIODIC BENEFIT COST				
Net transition obligation	\$ -	\$ -	\$ 14,577	\$ 18,221
Prior service cost	-	-	(441)	510
Net actuarial (gain)/loss	17,506	8,681	61,146	66,202
Amount recognized as reduction in unrestricted net assets	\$ 17,506	\$ 8,681	\$ 75,282	\$ 84,933

The accumulated benefit obligation for the pension plans was \$46,134 and \$44,061 at June 30, 2009 and 2008, respectively. The accumulated benefit obligation differs from the projected benefit obligation in the table above in that it includes no assumptions about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels. For postretirement plans other than pensions, the accumulated benefit obligation is the same as the projected benefit obligations because the liabilities are not compensation-related.

D. Net Periodic Benefit Cost

Net benefit expense related to the pension and postretirement plans for the fiscal years ended June 30 includes the following components:

NET PERIODIC BENEFIT COST

	Pension benefits		Other postretirement	
	2009	2008	2009	2008
Service cost (benefits earned during the period)	\$ 3,671	\$ 3,420	\$ 14,971	\$ 13,528
Interest cost	3,311	3,094	20,135	18,841
Expected return on plan assets	(2,971)	(3,776)	(9,854)	(9,906)
Amortization of initial transition obligation	-	-	3,644	3,644
Amortization of prior service cost	-	3,133	129	129
Amortization of net (gain)/loss	219	3,593	57	495
Settlement (gain)/loss	-	696	-	-
Net periodic benefit cost	\$ 4,230	\$ 10,160	\$ 29,082	\$ 26,731

The amounts of transition obligation, prior service costs, and actuarial gains/losses that will be amortized into net periodic benefit cost for the year ending June 30, 2010 are estimated as follows:

ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST

	Pension benefits	Other postretirement
Transition obligation	\$ -	\$ 3,644
Prior service cost	-	(76)
Net actuarial (gain)/loss	1,074	2,172
Total	\$ 1,074	\$ 5,740

E. Actuarial Assumptions

Assumptions used in determining the pension and postretirement plans benefit obligations and net periodic costs are:

SUMMARY OF ACTUARIAL ASSUMPTIONS

	Pension benefits		Other postretirement	
	2009	2008	2009	2008
USED TO CALCULATE BENEFIT OBLIGATIONS AT JUNE 30				
Discount rate	6.10%	6.00%	6.25% / 6.20%	6.00%
Rate of compensation increase	6.10%	6.10%		
USED TO CALCULATE NET PERIODIC COST AT JULY 1				
Discount rate	6.00%	6.00%	6.00%	6.00%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	6.10%	6.10%		
ASSUMED HEALTH CARE COST TREND RATES				
Health care cost trend rate assumed for next year	n/a	n/a	8.00%	8.00%
Ultimate trend rate	n/a	n/a	5.00%	5.00%
Years to reach ultimate trend rate	n/a	n/a	6	6

The health care cost trend rate assumption has a significant effect on the amounts reported for other postretirement (health care) plans. Increasing the health care cost trend rate by 1 percent in each future year would increase the benefit obligation by \$57,072 and the annual service and interest cost by \$7,895. Decreasing the health care cost trend rate by 1 percent in each future year would decrease the benefit obligation by \$46,176 and the annual service and interest cost by \$5,631.

F. Plan Assets

The plan assets for Endowed Ithaca and the Medical College are invested with an outside trustee for the sole benefit of the plan participants. Consistent with that objective, investments are managed to maximize total return while maintaining a prudent limitation on risk.

Risk mitigation is achieved by diversifying investments across multiple asset classes, by investing in high quality securities, and by permitting flexibility in the balance of investments in the permitted asset classes. The expected return on assets was derived based on long-term assumptions of inflation, real returns (primarily historically based), anticipated value added by the investment managers, and expected average asset class allocations. The expected returns on plan assets by category are 9.25 percent on equity securities, 5.75 percent on debt securities, and 8.25 percent on real estate.

Plan asset allocations by category at June 30 are as follows:

SUMMARY OF PLAN ASSETS

PERCENTAGE OF PLAN ASSETS	Target allocation	Pension benefits		Other postretirement	
		2009	2008	2009	2008
Equity securities	39-85%	62.0%	59.7%	66.0%	69.7%
Debt securities	15-55%	36.0%	36.7%	33.0%	30.3%
Real estate	0-5%	2.0%	3.6%	1.0%	0.0%
Total		100.0%	100.0%	100.0%	100.0%

G. Expected Contributions and Benefit Payments

The expected annual contributions and benefit payments that reflect anticipated service are as follows:

EXPECTED CONTRIBUTIONS AND BENEFIT PAYMENTS

	Pension benefits	Other postretirement	
		Employer paid	Government subsidy
UNIVERSITY CONTRIBUTIONS			
2010	\$ 2,777	\$ 8,501	n/a
FUTURE BENEFIT PAYMENTS			
2010	\$ 3,019	\$ 14,459	\$ 1,909
2011	3,716	16,104	2,116
2012	3,756	17,721	2,352
2013	3,764	19,371	2,587
2014	4,390	21,024	2,832
2015-2019	26,584	135,376	18,463

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a prescription drug benefit known as "Medicare Part D" that also established a federal subsidy to sponsors of retiree healthcare benefit plans. The estimated future government subsidy amounts are reflected in the table above.

H. Contract College Employees

Employees of the Contract Colleges are covered under the New York State pension plans. Contributions to the state retirement system and other employee benefit costs are paid directly by the state. The amounts of the direct payments applicable to the University as revenue and expenditures are not currently determinable and are not included in the consolidated financial statements. The University reimburses the state for employee benefit costs on certain salaries, principally those associated with externally sponsored programs. The amounts reimbursed to the state during the fiscal years ended June 30, 2009 and 2008, were \$19,335 and \$18,459, respectively, and were included in operating expenses.

7. FUNDS HELD IN TRUST FOR OTHERS

The University, in limited instances, invests funds as a custodian for other closely related parties. Independent trustees are responsible for the funds and for the designation of income distribution. The New York Hospital-Cornell Medical Center Fund, Inc., which benefits the Weill Cornell Medical Center of the New York-Presbyterian Hospital, is the major external organization invested in the University's long-term investment portfolio with assets having market values of \$131,011 and \$189,342 at June 30, 2009 and 2008 respectively. Of these investments, a portion of the future income stream has been directed in perpetuity to benefit the Medical College. The present values of this income stream, calculated to be \$74,134 and \$75,966 at June 30, 2009 and 2008, respectively, are recorded as reductions in the funds held in trust for others liability.

8. BONDS AND NOTES PAYABLE

A. General Information

Bonds and notes payable as of June 30 are summarized as follows:

SUMMARY OF BONDS AND NOTES PAYABLE

	2009	2008	Interest rates	Final maturity
Dormitory Authority of the State of New York (DASNY)				
Revenue Bond Series				
1990B-variable rate/daily	\$ 56,000	\$ 56,700	0.12 to 8.90	2025
2000A-variable rate/weekly	54,845	56,620	2.99*	2029
2000B-variable rate/weekly	72,800	74,835	4.63*	2030
2004-variable rate/weekly	86,075	88,175	3.51*	2033
2006-fixed rate	219,340	231,160	4.00 to 5.00	2035
2008B&C-variable rate/daily	130,000	130,000	3.84*	2037
2009A-fixed rate	305,000	-	3.00 to 5.00	2039
Tax-exempt commercial paper	6,155	149,875	0.35 to 4.10	2037
Bond Series 1987B-fixed rate	7,110	8,825	11.11	2012
Taxable commercial paper	127,875	60,911	0.20 to 4.80	-
2009 Taxable-fixed rate	500,000	-	4.35 to 5.45	2019
Industrial Development Agency				
2000-fixed rate	2,275	3,330	5.13 to 5.25	2011
2002A-variable rate/weekly	42,340	42,530	4.52*	2030
2002B-variable rate/weekly	15,390	15,390	4.33*	2015
2008A-variable rate/daily	70,000	70,000	3.84*	2037
Student Loan Marketing Association-fixed rate	4,700	5,030	5.75 to 6.50	2019
Urban Development Corporation	2,500	2,625	-	2029
Other	2,973	3,164	various	2010-2029
Total bonds and notes payable	<u>\$ 1,705,378</u>	<u>\$ 999,170</u>		

* Rates presented are the swap interest rates as noted in the following Summary of Interest Rate Swaps table.

The University's bonds and notes payable had carrying amounts of \$1,705,378 and \$999,170 at June 30, 2009 and 2008, respectively, compared to estimated fair values of approximately \$1,741,026 and \$1,001,739 at June 30, 2009 and 2008, respectively. Estimated fair value of bonds is based on quoted market prices for the same or similar issues. The market prices utilized reflect the amounts a third party would pay to purchase the bonds and not an additional liability to the University.

Interest expense during the fiscal year ended June 30, 2009 was \$26,041, of which \$23,042 was related to the bonds and notes payable displayed in the table above. During the fiscal year ended June 30, 2008, interest expense was \$27,784, of which \$25,926 was related to the bonds and notes payable. The University capitalized interest on self-constructed assets, such as buildings, in the amount of \$15,438 and \$9,698 for the fiscal years ended June 30, 2009 and 2008, 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 consolidated financial statements because they are not liabilities of the University.

Under the 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. Also, certain revenue bonds require compliance with an asset-to-liability ratio and an unencumbered securities-to-operating-expense ratio.

During the fiscal year ended June 30, 2009, the University issued \$305,000 of fixed-rate debt to finance various capital projects on the Ithaca and Medical College campuses and to refinance \$150,000 of tax-exempt commercial paper. In addition, the University issued \$500,000 of taxable fixed-rate debt for working capital purposes.

The University continues to issue both tax-exempt and taxable commercial paper. Tax-exempt commercial paper is used to finance capital projects and equipment purchases for the Ithaca and Medical College campuses. Taxable commercial paper is also used for these purposes, as well as to finance short-term working capital needs. The maximum amount outstanding at any one time under each program is \$200,000.

Scheduled principal and interest payments on bonds and notes for the next five fiscal years and thereafter are shown below:

ANNUAL DEBT SERVICE REQUIREMENTS			
Year	Principal	Interest	Total
2010	\$ 22,556	\$ 67,019	\$ 89,575
2011	26,761	69,704	96,465
2012	33,072	67,266	100,338
2013	32,303	65,891	98,194
2014	282,445	64,631	347,076
Thereafter	1,308,241	597,662	1,905,903
Total	\$ 1,705,378	\$ 932,173	\$ 2,637,551

In estimating future interest payments, the University uses the interest rate associated with the swap agreement until the termination date. For unhedged tax-exempt debt, the University estimates the future interest payments based on SIFMA plus 50 basis points, and for taxable commercial paper debt, the federal funds rate plus 100 basis points.

B. Interest Rate Swaps

The University has eleven interest rate swap agreements to exchange variable-rate debt for fixed-rate obligations without the exchange of the underlying principal amount. Net payments or receipts under the swap agreements are recorded as adjustments to interest expense. Under three agreements in effect at June 30, 2009, the counterparty pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association (SIFMA) index, and under eight other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month London Interbank Offered Rates (LIBOR).

Effective for the fiscal year beginning July 1, 2008, the University adopted FAS 157, which established additional guidance and disclosure requirements for fair value measurements of assets and liabilities, including derivatives. Interest rate swaps are valued using significant other observable inputs, such as quotations received from counterparties, dealers, or brokers, whenever available and considered reliable. The University's interest rate swap arrangements have inputs that can generally be corroborated by market data and are therefore classified as Level 2 in the FAS 157 valuation hierarchy.

The University's interest rate swaps are summarized in the following table:

SUMMARY OF INTEREST RATE SWAPS

Notional amount	Interest rate	Commencement	Termination date	Basis	Level 1	Level 2	Level 3
					fair value	fair value	fair value
\$ 15,390	4.33%		July 1, 2010	SIFMA	\$ -	\$ (612)	\$ -
106,620	2.99%		October 1, 2012	LIBOR	-	(6,943)	-
42,530	4.52%		July 1, 2030	SIFMA	-	(8,379)	-
74,200	4.63%		July 1, 2030	LIBOR	-	(15,075)	-
88,175	3.51%		July 1, 2033	LIBOR	-	(8,373)	-
200,000	3.84%		July 1, 2037	SIFMA	-	(8,918)	-
100,000	3.92%	July 1, 2011	July 1, 2038	LIBOR	-	(9,564)	-
200,000	3.45%	July 1, 2010	July 1, 2039	LIBOR	-	(13,212)	-
275,000	3.65%	July 1, 2010	July 1, 2040	LIBOR	-	(32,414)	-
200,000	3.48%	July 1, 2012	July 1, 2041	LIBOR	-	(8,332)	-
200,000	3.77%	July 1, 2014	July 1, 2044	LIBOR	-	(12,844)	-
					\$ -	\$ (124,666)	\$ -

C. Standby Purchase Agreements

The University has standby purchase agreements with various financial institutions to purchase all of the University's variable-rate demand bonds in the event they cannot be remarketed. In the event that the bonds covered by these agreements were not remarketable and the agreements were not otherwise renewed, the principal amounts due in the Annual Debt Service Requirements table would be \$412,776, \$145,461, \$19,877, \$18,373, \$267,785, and \$841,105. Detailed information about the variable-rate demand bonds is shown in the following table:

SUMMARY OF STANDBY PURCHASE AGREEMENTS

Series	Provider	Fee (bps)	Expiration
1990B	JP Morgan Chase	50	Nov-09
2000A	JP Morgan Chase	50	Nov-09
2000B	JP Morgan Chase	50	Nov-09
2002A	JP Morgan Chase	50	Nov-09
2002B	JP Morgan Chase	50	Nov-09
2004	HSBC	40	Apr-10
2008A	JP Morgan Chase	100	Jan-10
2008B&C	Bank of America	20	Apr-11

D. Lines of Credit

The University records its working capital lines of credit as other liabilities in the consolidated statement of financial position. At June 30, 2009, the interest rates for its two lines of credit were 1.75 percent and 1.06 percent. The two \$100 million lines of credit have annual expiration dates of December 31 and April 1. As of June 30, 2009 and 2008, \$104,000 and \$164,500, respectively, were borrowed against the lines of credit.

9. OPERATING LEASES

Although the University generally purchases, rather than leases, machinery and equipment, the University does enter operating lease agreements for the use of real property. Total lease expenses were \$22,398 and \$18,058 for the fiscal years ended June 30, 2009 and 2008, respectively. The future annual minimum lease payments in the following table are payments under operating leases expiring at various dates through November 1, 2054.

ANNUAL MINIMUM OPERATING LEASE PAYMENTS

Year	Payments
2010	\$ 20,713
2011	17,612
2012	15,475
2013	13,838
2014	11,363
Thereafter	95,376
Total minimum operating lease payments	\$ 174,377

10. FUNCTIONAL EXPENSES AND STUDENT AID

Total expenses by functional categories for the fiscal years ended June 30 are as follows:

FUNCTIONAL EXPENSES		
	2009	2008
Instruction	\$ 628,635	\$ 597,606
Research	524,926	511,158
Public service	118,945	114,143
Academic support	267,973	267,222
Student services	123,477	119,858
Medical services	549,342	474,471
Institutional support	408,757	414,747
Enterprises and subsidiaries	202,446	209,708
Total expenses	\$ 2,824,501	\$ 2,708,913

The expenses for operations and maintenance of facilities, depreciation, and interest related to capital projects are allocated to functional categories based on square footage. The amounts allocated for operations and maintenance were approximately \$166,942 and \$154,430 for the fiscal years ended June 30, 2009 and 2008, respectively.

Student financial assistance is shown as a component of instruction expense unless the assistance is for tuition and mandatory fees. If the assistance is for tuition and mandatory fees, the amounts are recorded as scholarship allowance which reduces tuition revenue. Total financial assistance amounts classified as instruction expense were \$26,964 and \$24,106 for the fiscal years ended June 30, 2009 and 2008, respectively.

11. NET ASSETS

A. General Information

The University's net assets as of June 30 are as follows:

SUMMARY OF NET ASSETS

	Unrestricted	Temporarily restricted	Permanently restricted	2009 Total	2008 Total
Endowment					
True endowment	\$ 880,065	\$ -	\$ 1,680,920	\$ 2,560,985	\$ 3,535,217
Funds functioning as endowment (FFE)	971,437	303,867	-	1,275,304	1,712,792
Total true endowment and FFE	\$ 1,851,502	\$ 303,867	\$ 1,680,920	\$ 3,836,289	\$ 5,248,009
Funds held by others, perpetual	-	-	129,752	129,752	137,473
Total University endowment	\$ 1,851,502	\$ 303,867	\$ 1,810,672	\$ 3,966,041	\$ 5,385,482
Other Net Assets					
Operations	(478,612)	156,274	-	(322,338)	(35,702)
Student loans	9,477	-	34,517	43,994	42,241
Facilities and equipment	1,803,973	44,396	-	1,848,369	1,821,159
Split interest agreements	-	45,219	29,954	75,173	114,261
Funds held by others, other than perpetual	-	35,896	-	35,896	44,397
Contributions receivable, net	-	270,863	154,512	425,375	666,817
Total net assets	\$ 3,186,340	\$ 856,515	\$ 2,029,655	\$ 6,072,510	\$ 8,038,655

Unrestricted net asset balances for operations are primarily affected by operating activities and strategic decisions to invest expendable balances in funds functioning as endowment and capital projects.

B. Endowment

Of the endowment assets held at the University, 94 percent and 98 percent were invested in the LTIP at June 30, 2009 and 2008, respectively. At June 30, 2009, 2,434 of 5,828 true endowment funds invested in the LTIP had a total historic dollar value of \$940,568 and a fair value of \$814,139, resulting in these endowments being underwater by a total of \$126,429. The University holds significant unrestricted appreciation on endowments to offset these temporary decreases in value. The University has maintained these true endowment funds at their historical book value.

Changes in the endowment net assets, exclusive of funds held in trust by others, for the fiscal years ended June 30 are presented below:

SUMMARY OF ENDOWMENT ACTIVITY

	Unrestricted	Temporarily restricted	Permanently restricted	2009 Total	2008 Total
True endowment and FFE beginning of year	\$ 3,518,475	\$ 173,825	\$ 1,555,709	\$ 5,248,009	\$ 5,113,094
Investment return					
Net investment income	2,802	9,980	2,628	15,410	47,203
Net realized and unrealized gain/(loss)	(1,471,709)	83,572	2,834	(1,385,303)	73,018
Total investment return	\$ (1,468,907)	\$ 93,552	\$ 5,462	\$ (1,369,893)	\$ 120,221
New gifts	2,821	143,780	103,209	249,810	158,751
Net transfers to/(from) FFE	(56,304)	(2,263)	83	(58,484)	11,360
Distribution of endowment return to other funds	(132,816)	(90,853)	(3,188)	(226,857)	(194,486)
Other changes	(8,885)	303	2,179	(6,403)	(1,080)
Reclassifications	(2,882)	(14,477)	17,466	107	40,149
Total true endowment and FFE end of year	\$ 1,851,502	\$ 303,867	\$ 1,680,920	\$ 3,836,289	\$ 5,248,009

12. 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 be foreseen, 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 multi-provider captive insurance company.

13. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 1, 2009, the date on which the consolidated financial statements were issued.

UNIVERSITY ADMINISTRATION

David J. Skorton, *President*

W. Kent Fuchs, *Provost*

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

Laura S. Brown, *Vice Provost for Undergraduate
Education*

Thomas W. Bruce, *Vice President for
University Communications*

Robert A. Buhrman, *Senior Vice Provost
for Research*

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