

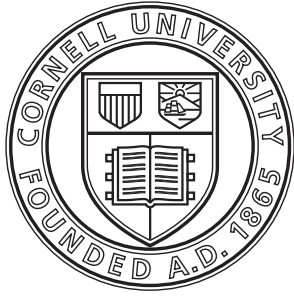
2013-2014 Financial Report



Pool Classroom
Faculty and Administrative offices are located on the 1st and 2nd floors at the west end of the building above the Entry Box.
Faculty offices are located at the east end of the building on floor 1st and the new Cornell Entry Information Gallery is located on the 1st floor near east.



Cornell University



Cornell University 2013-2014 Financial Report

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Please note that there will be no printed Financial Report books handed out at the October Board meeting. However, the full approved version of the Financial Report will be available online after Thursday, October 16, 2014 at: <http://www.dfa.cornell.edu/accounting/reporting/annualstatements/index.cfm>

CORNELL UNIVERSITY HIGHLIGHTS

	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>
Fall enrollment (excluding in absentia)			
Undergraduate	14,393	14,261	14,167
Graduate	5,650	5,648	5,580
Professional	2,594	2,518	2,450
Total fall enrollment	<u>22,637</u>	<u>22,427</u>	<u>22,197</u>
Degrees granted			
Baccalaureate degrees	3,570	3,577	3,596
Masters degrees	2,407	2,359	2,197
Ph.D. degrees	575	563	556
Other doctoral degrees (J.D., M.D., D.V.M.)	384	374	386
Total degrees granted	<u>6,936</u>	<u>6,873</u>	<u>6,735</u>
Tuition rates			
Endowed Ithaca	\$ 45,130	\$ 43,185	\$ 41,325
Contract Colleges			
Resident	\$ 28,990	\$ 27,045	\$ 25,185
Nonresident	\$ 45,130	\$ 43,185	\$ 41,325
Medical Campus	\$ 48,500	\$ 47,150	\$ 46,000
Business	\$ 55,948	\$ 53,796	\$ 51,480
Law	\$ 57,270	\$ 55,220	\$ 53,150
Veterinary medicine	\$ 30,725	\$ 29,400	\$ 28,400
Volumes in library (in thousands)	8,025	7,942	7,876
Academic workforce			
Full-time employees			
Faculty	3,628	3,314	3,277 *
Nonfaculty	881	864	886
Part-time employees			
Faculty	288	271	255 *
Nonfaculty	152	209	211
Total academic workforce	<u>4,949</u>	<u>4,658</u>	<u>4,629</u>
Nonacademic workforce			
Full-time employees	10,166	9,866	9,593 *
Part-time employees	588	574	588
Total nonacademic workforce	<u>10,754</u>	<u>10,440</u>	<u>10,181</u>
University Endowment			
Market value of total university endowment (in millions)	\$ 5,889.9	\$ 5,272.2	\$ 4,947.0
Unit value of Long Term Investment Pool	\$ 58.45	\$ 53.30	\$ 50.67
Gifts received, excluding pledges (in millions)	\$ 484.2	\$ 426.0	\$ 333.8
New York State appropriations through SUNY (in millions)	\$ 131.2	\$ 133.1	\$ 131.5
Medical Physicians' Organization fees (in millions)	\$ 827.4	\$ 752.0	\$ 679.9
Sponsored research volume (in millions)			
Direct expenditures	\$ 470.5	\$ 448.0	\$ 463.3
Indirect-cost recovery	\$ 130.5	\$ 124.4	\$ 137.2
Selected land, buildings, and equipment items & related debt (in millions)			
Additions to land, buildings, and equipment	\$ 676.0	\$ 692.0	\$ 573.4
Cost of land, buildings, and equipment	\$ 6,361.1	\$ 5,990.7	\$ 5,590.7
Outstanding bonds, mortgages, and notes payable	\$ 1,565.9	\$ 1,855.4	\$ 1,896.6

* Restated from previously reported number

It's been an exciting year for Cornell; fundraising continues to be outstanding and investment returns were greater than anticipated. In addition, responsible financial stewardship remains a top priority for senior administration, demonstrated by continued simplification of the University's operations through focused business process improvement and a firm commitment to efficiency across the organization.

There is always an extraordinary demand for a Cornell education. For the second successive year, the University received a record-breaking number of applications. Over 43,000 (7.6 percent increase over last year) prospective students applied for approximately 3,200 undergraduate admission places. Cornell continues to be very selective, with a 14.2 percent acceptance rate for fall 2014 freshman applicants, the lowest in University history. The class of 2018 matriculation yield rate has increased to 53.4 percent, the highest since 1981. Within the freshman class, 13.5 percent are the firsts in their families to attend college, while 14.6 percent are children of Cornell alumni.

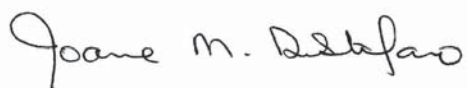
Cornell continues its commitment to access and affordability – within the 44 percent of incoming freshman students who receive aid, the average grant aid award was \$35,735, an increase of \$1,946 (5.8 percent) over last year. Cornell's geographical profile remains diverse and global, with nearly 11 percent of its undergraduate students coming from outside the United States, and 59 percent from states other than New York.

University operating revenues have grown 25 percent over the past five years, from \$2.8 billion to \$3.5 billion. The largest growth area has been the Medical Physician Organization at Weill Cornell Medical College, which makes up approximately 23 percent (\$827 million) of the University's total operating revenue (compared to 19 percent in fiscal year 2009). Cornell continued its history of strong fundraising in fiscal year 2014, with over 55,000 contributing donors, the highest number to date. 2014 set a single-year record, receiving \$541.6 million in cash gifts.

Operating costs at Cornell are less dependent on endowment payout than other highly endowed institutions, mostly due to the University's revenue diversity and the relatively small endowment per student. Less than 10 percent of the University's operating costs were funded from its endowment in fiscal year 2014. Operating expenses have increased \$600 million, or 21 percent, over the past five years, mainly as a result of growth with the Physician Organization.

As of fiscal year-end 2014, Cornell had \$1.6 billion of bonds and notes outstanding, including \$121 million of outstanding commercial paper and \$250 million in taxable bonds issued in 2009. As scheduled in fiscal year 2014, a \$250 million principal payment was made on the 2009 taxable debt.

As we celebrate our sesquicentennial in fiscal year 2015, we must continue to look to our future, which includes the development of our exciting new campus, Cornell NYC Tech. For the foreseeable future, we will continue to strengthen our business model and our commitment to "One Cornell" through focus and connectivity, and remain committed to our stewardship responsibilities in an ever-challenging fiscal and economic environment. I am confident that Cornell's position as a preeminent research university with world-class faculty and staff, serving the most outstanding students from all backgrounds, will continue as long as we honor our missions while maintaining financial flexibility.



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

OVERVIEW

During the fiscal year ended June 30, 2014, much of the University focused its efforts on streamlining, improving processes and efficiencies, reducing administrative burden, strategic planning, and controlling costs. Our commitment to “One Cornell” has been strengthened through the development of joint policies and procedures and increased connections. Even with the progress that has been made, we will continue our efforts in these areas. Management of the financial position of the University is a high priority.

With over \$9.2 billion in net assets, the University is in a strong financial position. Total unrestricted net assets exceed \$3.0 billion. Total assets increased by \$1.0 billion while total

“The University continues its efforts to align revenues and expenses for current operations.”

liabilities decreased by \$125.5 million. The change in net assets from operating activities, or net operating income, was \$131.7 million for the year and the change in net assets from non-operating activities, or net non-operating income, was \$1.0 billion. Contributions, both operating and non-operating, were responsible for a large part of this change in net assets. Operating contributions were up 61.0 percent from the prior year and non-operating contributions were up 150.7 percent from the prior year. Of these amounts however, 89.9 percent and 48.6 percent were related to contribution revenue from operating and non-operating pledges, respectively. Additionally, investment return was up 54.1 percent, due primarily to realized and unrealized gains. Operating revenue, excluding contributions and investment return, increased by \$173.0 million and total operating expenses increased by \$177.5 million for the year. Overall, improvement was seen in revenues and management of expenses.

NEW STANDARDS, EMERGING ISSUES, AND INITIATIVES

New Standards and the Regulatory Environment

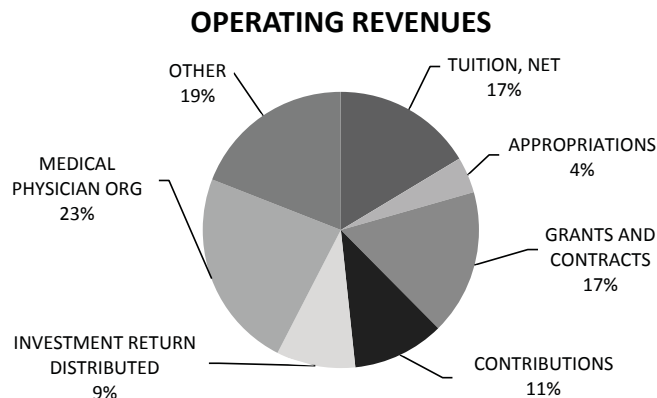
There is continued drive for consistency, transparency, and improved disclosure requirements. In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board issued their converged standard on revenue recognition. The standard is intended to provide a comprehensive, industry-neutral revenue recognition model to increase financial statement comparability across companies and industries. The new standard will be effective for fiscal year 2018. Prior to implementation, Cornell will perform a comprehensive review of existing agreements and practices to determine the impact of the new guidance.

It is expected that by the end of calendar year 2014 the FASB will issue an exposure draft related to Not-for-Profit financial statement presentation, which is expected to focus on key decisions, including disaggregation of activities by function; a consistent defined operating measure for Not-for-Profits; changes to the statement of cash flow; and simplified net asset reporting. Upon release of the exposure draft, Cornell will assess the impact of the guidance to its consolidated statements.

FINANCIAL YEAR IN REVIEW

Operating Revenues

The University continues its efforts to align revenues and expenses for current operations. For fiscal year 2014, operating revenues exceeded operating expenses by 3.9 percent, resulting in \$131.7 million of net operating income. Operating contributions were up 61.0 percent from the prior year, as a result of increased pledged contributions related in large part to the NYC Tech campus (Cornell NYC Tech) and Weill Cornell Medical College (WCMC). The Medical Physician Organization increased 10.0 percent as a result of increased patient care revenue from the expansion of the network, as



well as the affiliation with New York Presbyterian - Lower Manhattan Hospital. All other operating revenue increased by \$120.3 million, or 5.4 percent, while operating expenses increased by \$177.5 million, or 5.5 percent.

In fiscal year 2014, gross tuition revenue increased by 4.9 percent as a result of Board-authorized tuition increases and increased enrollment. The scholarship allowance represents the amount of institutional grant aid for the cost of attendance; this allowance remained flat this fiscal year. The University also provides financial aid to students to defray the cost of living expenses; this aid is reported in supplies and general expense and disclosed in Note 10. Overall enrollment in fiscal year 2014 reached 22,637.

This fiscal year saw a 2.2 percent increase in combined direct and indirect revenues from grants and contracts. While direct funding increased by 4.9 percent, indirect funding decreased by 6.4 percent as compared with the prior year. The fluctuation in indirect cost recoveries is affected by many factors, not merely the amount of direct funding. As emphasized in prior years, indirect cost recoveries are based on the recovery rates in effect when a grant is first awarded, as well as the components of expenditures. Expenditures for tuition, equipment, and payments to subrecipients do not include full indirect cost recoveries. During this fiscal year, there was also a significant increase in subrecipients because Cornell leads multi-institutional projects here and abroad.

Contribution revenue for operations was \$381.1 million, or a 61.0 percent increase from last year. Non-operating contributions for buildings, trusts, and permanent endowment were \$442.7 million, or a 150.7 percent increase. The success of the University's capital campaign during the year, including extraordinary support for Cornell NYC Tech and WCMC, accounts for much of the increase in operating and non-operating contribution revenue. We are grateful to our donors for their continued support.

Distributed investment return increased modestly in this fiscal year. Investment payout on the long-term investment pool (LTIP) shares is the major component of this revenue. 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 five years. Investment return included in operating revenues consists of amounts appropriated by the Board of Trustees from pooled endowment, and income and realized gains and losses on investments from working capital and non-pooled endowments and similar funds.

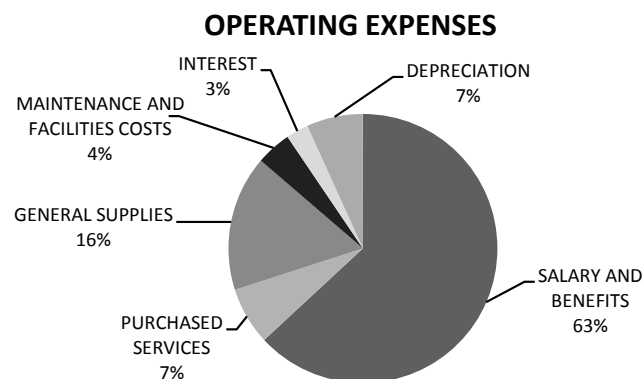
The Medical Physician Organization's revenue continues to grow, reaching \$827.4 million and showing a 10.0 percent increase from the prior year. Much of this growth is driven by the new clinical affiliation with the New York Presbyterian - Lower Manhattan Hospital and by a recently opened site in the Upper West Side.

Revenues from auxiliary enterprises decreased by \$3.0 million, or 1.8 percent, and educational activities and other sales and services increased by \$47.6 million, or 10.3 percent. Of the increase in educational activities and other sales and services, \$27.9 million is related to an increase in income from New York Presbyterian Hospital activities, \$5.0 million is related to increased licensing and agreements within the Cornell Center for Technology Enterprise and Commercialization (CCTEC), and \$6.1 million is related to activities with the Cornell University Veterinary Specialists, eCornell, and services provided to the Jacobs Technion Cornell Innovation Institute.

Net assets released from restriction represents the transfer of funds from temporarily restricted net assets to unrestricted net assets as a result of the satisfaction of donor-imposed contribution stipulations with respect to timing or purpose. In fiscal year 2014, this amount was \$190.2 million.

Operating Expenses

Salary and benefit expense is generally the major component of operating expenses for a research university, and Cornell is no exception. Consistent with the prior year, salary and benefit expense is 63.1 percent of overall operating expenses. This expense increased by \$128.7 million, or 6.4 percent. Beyond the overall salary improvement plan, averaging 3.25



percent in Ithaca, compensation at WCMC was a major component of this increase due to increased headcount related to strategic initiatives and expansion of the Medical Physician Organization.

Depreciation expense increased in fiscal year 2014 by \$24.0 million, or 11.6 percent, related in large part to the portion of the Belfer Medical Research building which was placed in service during the year and the amortization of a major software gift in kind received during the year.

Other operating expenses increased by \$24.8 million, or less than 2.5 percent. The University is committed to managing overall costs without jeopardizing its ability to carry out its missions and strategic initiatives; the University continued to manage its costs in fiscal year 2014.

Non-Operating Revenues and Expenses

Non-operating activities represent those in support of the University but not directly related to its core activities. These would include funding from New York State for buildings; funding from donors restricted to capital projects, trusts or

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)

endowments; investment returns, net of distributed; and non-operating income and expense affected by fair value adjustments at fiscal year-end.

New York State has provided significant appropriations, over \$229.2 million in the past five years, to allow the University to build and improve the facilities for the contract colleges during that time. The current year revenues decreased by \$41.6 million, or 59.7 percent, from the prior year. Of the decrease, \$24.3 million was related to the completion of Stocking Hall in the prior year. Much of the balance of the decrease was related to the overall reduction in funding for contract college projects during the year.

The remaining income and expense items in the non-operating section are all significantly affected by market factors. The \$553.9 million gain reflected as investment return in the non-operating section represents a 107.3 percent increase over the prior year, due to the continued improvement of the financial markets. This return is net of the amount distributed, \$327.5 million, as reflected in the operating section of the statement of activities. The total operating and non-operating return is \$881.4 million, of which \$476.1 million was unrealized. The long-term investment return for fiscal year 2014 was 15.8 percent, as compared with 11.4 percent in the prior year. Over the last three years, the annualized return of the long-term investment has been 8.9 percent.

The \$32.4 million decrease, reflected as the change in pension and postretirement costs in the non-operating section, is affected by numerous factors. This figure includes gains, losses, and other changes in the actuarially determined benefit obligations arising in the current period but not yet reflected within net periodic benefit cost.

Change in value of interest rate swaps includes a \$.7 million unrealized gain in the fair value of the debt swap portfolio based on the current year valuation as of June 30, 2014 and a \$13.5 million loss on the termination of one swap. This reflects a 113.0 percent decrease over the prior year.

As you can see from a review of the non-operating section, the overall non-operating gain of \$1,017.3 million for fiscal year 2014 is based primarily on the significant contributions for capital acquisitions, trusts, and endowments as well as the investment return, net of amount distributed.

Statement of Financial Position

The University's overall net assets increased by \$1,148.9 million, or 14.2 percent. The balance sheet remains strong, with a total of \$9.2 billion in net assets, including \$3.0 billion in unrestricted net assets.

Assets

Cash is subject to variation from year to year because of the University's holdings as of June 30 in cash equivalents, i.e., securities with an initial maturity term of ninety days or less. At the end of fiscal year 2014, cash was \$103.6 million lower than the prior year, which represents a decrease of 40.4 percent. Much of the decrease is related to the construction and acquisition of buildings and equipment and reduction of debt.

The increase in accounts receivable is best understood by reviewing the key components as disclosed in Note 2 of the consolidated financial statements. The Ithaca campus experienced an increase of \$38.9 million in the overall receivables. Of the increase, approximately \$12.2 million was related to the increase in gift accruals and \$22.3 million was related to an increase in sponsored funds receivable due to timing and other issues.

Receivables for WCMC increased in this fiscal year by \$59.8 million. Of this amount, \$50.0 million was related to a note receivable from the City of New York for the purchase of a portion of the Belfer Medical Research Building. Additionally, \$9.8 million was related to an increase in receivables from sponsored projects and \$4.4 million related to patient receivables. This was offset by an increase in an overall accounts receivable allowance of \$4.4 million.

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	\$ 3,070.2	\$ 3,623.2	\$ 4,180.4	\$ 5,197.5	\$ 5,378.1	\$ 3,794.3	\$ 4,223.2	\$ 4,921.8	\$ 4,786.9	\$ 5,188.6
	234.8	202.0	128.7	236.8	190.5	573.9	210.6	155.3	287.4	349.7
	(37.1)	(33.7)	(125.1)	(130.1)	(340.9)	(578.7)	(286.9)	(233.0)	(354.1)	(422.2)
	355.3	388.9	1013.5	73.9	(1433.4)	433.7	774.9	(57.2)	468.4	780.2
	<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>\$ 4,223.2</u>	<u>\$ 4,921.8</u>	<u>\$ 4,786.9</u>	<u>\$ 5,188.6</u>	<u>\$ 5,896.3</u>
	<u>\$ 50.11</u>	<u>\$ 55.42</u>	<u>\$ 66.62</u>	<u>\$ 65.37</u>	<u>\$ 45.12</u>	<u>\$ 47.38</u>	<u>\$ 53.58</u>	<u>\$ 50.67</u>	<u>\$ 53.30</u>	<u>\$ 58.45</u>

At fiscal year ending June 30, 2014 there was no collateral on deposit with third parties for the debt swap agreements. Collateral is not required for fair value adjustments, unless the University's credit rating falls below an "A" rating. As of June 30, 2014, the University continues to maintain its credit rating: Aa1 (Moody's) and AA (S&P).

The increase of \$259.1 million, or 31.1 percent, in contributions receivable is commensurate with the generous contributions received.

Investments as of June 30, 2014 were \$6.8 billion, a 9.4 percent increase over the prior year. The increase in the fair value of University assets is based on realized and unrealized gains from the fair value adjustments at the end of this fiscal year and an increase in the number of shares held. Fair value adjustments, as the financial press reminds us, are often related to the asset allocations in the portfolio, with some sectors outperforming others.

The University continues to enhance its physical plant with new buildings, improvements to older buildings, and infrastructure projects. The 4.8 percent increase in land, buildings and equipment in fiscal year 2014 consists of projects placed in service as well as construction in progress (CIP).

"At the Cornell NYC Tech Chelsea campus, close to 100 students and four new faculty members started this semester."

CIP at fiscal year-end includes several major projects, such as Cornell NYC Tech, Klarman Hall, Geneva Greenhouse, Goldwin Smith Slate Roof Replacement, and a portion of Belfer Medical Research Building at WCMC. Several major projects were placed in service in fiscal year 2014, including Stocking Hall Food Science, a portion of Belfer Medical Research Building, Gates Hall, Law School Expansion, Network Connectivity Improvements, next phase of Warren Hall, Harford Teaching and Research Center, and Large Animal Teaching Complex.

Liabilities

In total, accounts payable and accrued expenses decreased by \$38.5 million for the year. Included within that change is an \$18.0 million decrease related to the construction of the Belfer Medical Research Building; \$6.0 million decrease related to other construction in progress; and \$10.5 million decrease related to timing of payroll taxes withholding and benefit contribution remittances.

Funds held in trust for others represent resources that are invested by the University as a custodian for other closely related parties. Independent trustees are responsible for the funds and for the designation of income distribution. Of the increase of \$97.3 million, \$87.5 million is related to funds held for Boyce Thompson Institute for Plant Research, an independent, non-profit organization affiliated with the University.

The bonds and notes payable decline of \$289.5 million includes the payoff of \$250.0 million of taxable debt.

SUMMARY

A recent report from Grant Thornton acknowledges the challenges of higher education, including revenue pressures, the need for efficient operations and cost savings, and the impact of rapidly evolving technologies. Moody's states in a recent annual report that the outlook continues to be negative for the US higher education sector. It cites that conditions remain stressed over the next 12-18 months and revenue growth is expected to remain lower than historical and be eclipsed by expenses due to "pent-up institutional needs." Additionally, the outlook for federal funding for research continues to be challenging. Maintaining our funding level into the future will require continued excellence, vigilance, and significant proposal-writing effort of the faculty. And we do not expect this situation to change in the near term. This coming year will be focused on continued management of operating expenses, enhancement of new and existing revenue streams, and improvement of processes and procedures.

Even with the challenges and pressures facing higher education, the feeling in late August was anything but negative - over 3,000 first-time freshman arrived to begin classes. At the Cornell NYC Tech Chelsea campus, close to 100 students and four new faculty members started this semester. To meet the growing student, faculty, and staff populations, renovations were completed on an additional 12,000 square feet at the school's temporary campus in Google's Chelsea building. The anticipation and excitement could be felt all around the University.

We also have excitement as we begin our sesquicentennial year. The University surpassed a milestone of \$4.75 billion towards its 'Cornell Now' campaign thanks to a record year of giving in 2014, and WCMC reached its goal of raising \$1.3 billion for its pioneering "Discoveries that Make a Difference" campaign. As always, we are especially grateful to our donors for their continued generosity. Initial construction work on the Cornell NYC Tech campus has begun with a projected completion of the first phase in 2017. As we all—students, alumni, parents, friends, donors, faculty and staff—celebrate our sesquicentennial year, we reflect on and honor our past and our present while preparing for all of Cornell's future opportunities.



Aimee L. Turner
Associate Vice President and 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.

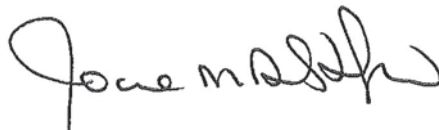
The University maintains a system of internal controls over financial reporting that is designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment 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 Board of Trustees of Cornell University, through its Audit Committee, is 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



Aimee L. Turner
Associate Vice President
and University Controller

Report of Independent Auditors

The Board of Trustees of Cornell University:

We have audited the accompanying consolidated financial statements of Cornell University (“the University”), which comprise the consolidated statement of financial position as of June 30, 2014 and the related consolidated statements of activities and of cash flows for the year then ended.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cornell University at June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited Cornell University’s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Rochester, New York
October 16, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2014 (in thousands)

(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2013)

	2014	2013
Assets		
1 Cash and cash equivalents	\$ 152,873	\$ 256,438
2 Accounts receivable, net (note 2-A)	436,760	338,051
3 Contributions receivable, net (note 2-B)	1,093,569	834,462
4 Prepaid expenses and other assets	96,979	98,264
5 Student loans receivable, net (note 2-C)	72,803	69,393
6 Investments (note 3)	6,848,293	6,261,455
7 Land, buildings, and equipment, net (note 4)	3,713,816	3,544,465
8 Funds held in trust by others (note 5)	114,212	103,291
9 Total assets	<u>\$ 12,529,305</u>	<u>\$ 11,505,819</u>
Liabilities		
10 Accounts payable and accrued expenses	\$ 567,412	\$ 605,906
11 Deferred revenue and other liabilities	284,866	223,366
12 Obligations under split interest agreements (note 5)	126,224	116,344
13 Deferred benefits (note 6)	476,451	445,650
14 Funds held in trust for others (note 7)	212,832	115,514
15 Bonds and notes payable (note 8)	1,565,865	1,855,405
16 Government advances for student loans	52,275	49,201
17 Total liabilities	<u>3,285,925</u>	<u>3,411,386</u>
Net assets (note 11)		
18 Unrestricted	3,014,917	2,750,515
19 Temporarily restricted	3,494,173	2,776,621
20 Permanently restricted	2,734,290	2,567,297
21 Total net assets	<u>9,243,380</u>	<u>8,094,433</u>
22 Total liabilities and net assets	<u>\$ 12,529,305</u>	<u>\$ 11,505,819</u>

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

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR-ENDED JUNE 30, 2014 (in thousands)

(WITH SUMMARIZED INFORMATION FOR THE YEAR-ENDED JUNE 30, 2013)

	Unrestricted	Temporarily Restricted
Operating revenues		
1 Tuition and fees	\$ 929,208	\$ -
2 Scholarship allowance	(349,255)	-
3 Net tuition and fees	579,953	-
4 State and federal appropriations	149,065	-
5 Grants, contracts and similar agreements		
6 Direct	471,328	-
7 Indirect cost recoveries	130,254	-
8 Contributions	74,822	306,314
9 Investment return, distributed	223,287	104,241
10 Medical Physician Organization	827,433	-
11 Auxiliary enterprises	163,548	-
12 Educational activities and other sales and services	511,121	-
13 Net assets released from restrictions	190,216	(190,216)
14 Total operating revenues	<u>3,321,027</u>	<u>220,339</u>
Operating expenses (note 10)		
15 Compensation and benefits	2,151,980	-
16 Purchased services	235,723	-
17 Supplies and general	555,314	-
18 Maintenance and facilities costs	143,825	-
19 Interest expense (note 8)	91,190	-
20 Depreciation	231,670	-
21 Total operating expenses	<u>3,409,702</u>	<u>-</u>
22 Change in net assets from operating activities	<u>(88,675)</u>	<u>220,339</u>
Nonoperating revenues and (expenses)		
23 State appropriations for capital acquisitions	28,092	-
24 Contributions for capital acquisitions, trusts and endowments	25,855	291,947
25 Investment return, net of amount distributed	186,271	340,940
26 Change in value of split interest agreements	4,575	(164)
27 Pension and postretirement changes other than net periodic costs	(32,428)	-
28 Change in value of interest rate swaps	(12,852)	-
29 Other	20,794	-
30 Net asset released for capital acquisitions and reclassifications	132,770	(135,510)
31 Change in net assets from nonoperating activities	<u>353,077</u>	<u>497,213</u>
32 Change in net assets	264,402	717,552
33 Net assets, beginning of the year	2,750,515	2,776,621
34 Net assets, end of the year	<u>\$ 3,014,917</u>	<u>\$ 3,494,173</u>

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

Permanently Restricted	2014 Total	2013 Total	
\$ -	\$ 929,208	\$ 886,178	1
-	(349,255)	(349,143)	2
-	579,953	537,035	3
-	149,065	152,190	4
-	471,328	449,445	5
-	130,254	139,135	6
-	381,136	236,713	7
-	327,528	304,681	8
-	827,433	751,957	9
-	163,548	166,520	10
-	511,121	463,489	11
-	-	-	12
-	-	-	13
-	3,541,366	3,201,165	14
-	2,151,980	2,023,326	15
-	235,723	212,247	16
-	555,314	567,004	17
-	143,825	129,519	18
-	91,190	92,465	19
-	231,670	207,631	20
-	3,409,702	3,232,192	21
-	131,664	(31,027)	22
-	28,092	69,684	23
124,851	442,653	176,572	24
26,688	553,899	267,164	25
12,336	16,747	17,902	26
-	(32,428)	24,608	27
-	(12,852)	99,173	28
378	21,172	(7,313)	29
2,740	-	-	30
166,993	1,017,283	647,790	31
166,993	1,148,947	616,763	32
2,567,297	8,094,433	7,477,670	33
\$ 2,734,290	\$ 9,243,380	\$ 8,094,433	34

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR-ENDED JUNE 30, 2014 (in thousands)
(WITH COMPARATIVE INFORMATION FOR THE YEAR-ENDED JUNE 30, 2013)

	2014	2013
Cash flows from operating activities		
1 Change in net assets	\$ 1,148,947	\$ 616,763
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities		
2 Proceeds from contributions for capital acquisitions, trusts and endowments	(287,409)	(232,766)
3 Depreciation	231,670	207,631
4 Net realized and unrealized (gain)/loss on investments	(794,792)	(506,958)
5 Pension and postretirement changes other than net periodic costs	32,428	(24,608)
6 Change in value of interest rate swaps	12,852	(99,173)
7 Loss on disposals of land, building, and equipment	1,619	2,638
8 Other adjustments	(26,435)	(8,338)
Change in assets and liabilities		
9 Accounts receivable, net	(98,709)	(18,762)
10 Contributions receivable, net	(259,107)	28,997
11 Prepaid expenses and other assets	8,005	(14,644)
12 Accounts payable and accrued expenses	(37,860)	60,067
13 Deferred revenue and other liabilities	61,500	17,393
14 Change in obligations under split interest agreements	(1,041)	3,547
15 Deferred benefits	(1,627)	26,619
16 Net cash provided/(used) by operating activities	<u>(9,959)</u>	<u>58,406</u>
Cash flows from investing activities		
17 Proceeds from the sale and maturities of investments	8,202,982	7,447,077
18 Purchase of investments	(8,001,748)	(7,327,078)
19 Acquisition of land, buildings, and equipment (net)	(389,909)	(403,180)
20 Student loans granted	(13,371)	(9,499)
21 Student loans repaid	10,179	9,844
22 Change in funds held in trust for others	97,318	25,467
23 Net cash used by investing activities	<u>(94,549)</u>	<u>(257,369)</u>
Cash flows from financing activities		
Proceeds from contributions for capital acquisitions, trusts and endowments		
24 Investment in endowments	164,035	145,751
25 Investment in physical plant	118,861	80,154
26 Investment subject to living trust agreements	4,513	6,861
27 Principal payments of bonds and notes payable	(289,540)	(41,153)
28 Proceeds from issuance of bonds and notes payable	-	-
29 Government advances for student loans	3,074	1,134
30 Net cash provided by financing activities	<u>943</u>	<u>192,747</u>
31 Net change in cash and cash equivalents	(103,565)	(6,216)
32 Cash and cash equivalents, beginning of year	256,438	262,654
33 Cash and cash equivalents, end of year	<u>\$ 152,873</u>	<u>\$ 256,438</u>
Supplemental disclosure of cash flow information		
34 Cash paid for interest	\$ 92,780	\$ 103,397
35 Increase/(decrease) in construction payables, non-cash activity	\$ (13,486)	\$ 21,616
36 Gifts-in-kind	\$ 26,217	\$ 8,040

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

1. SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Organization

Founded in 1865, Cornell University (the University) is dedicated to a mission of teaching, research, and public engagement. Cornell is the federal land-grant institution of New York State, a private endowed university, a member of the Ivy League, and a contract college of the State University of New York. It has been described as the first truly American university because of its founders' revolutionarily egalitarian and practical vision of higher education, and is dedicated to its land-grant mission of outreach and public engagement. Cornell's community includes over 22,600 students, more than 3,600 faculty, and more than 265,000 alumni who live and work across the globe.

The University comprises colleges and schools in Ithaca, New York (seven undergraduate units and four graduate and professional units), New York City (two medical graduate and professional units as part of Weill-Cornell), and Doha, Qatar (the Weill Cornell Medical College in Qatar). In addition, the University's newest campus, "Cornell NYC Tech," offers graduate programs for entrepreneurial technologists.

The University is subject to the common administrative authority and control of the Cornell University Board of Trustees. The University is prohibited from using funds attributable to the contract colleges (i.e., those colleges operated by the University on behalf of New York State) for other units of the University. Except as specifically required by law, the contract and endowed colleges at Ithaca, and Weill Cornell Medical College (WCMC), are, to the extent practicable, governed by common management principles and policies determined at the private discretion of the University. In addition to the activities of the endowed university, Contract Colleges, and Weill Cornell Medical College, 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 are prepared in accordance with U.S. generally accepted accounting principles (GAAP). Net assets, revenues, gains, and losses are categorized based on the existence or absence of donor-imposed restrictions.

The University's Board of Trustees, with consideration of the actions, reports, information, advice, and counsel provided by its duly constituted committees and appointed officers of the University, including University Counsel, has instructed the University to preserve the historical dollar value of donor-restricted (true) endowment funds, absent explicit donor direction to the contrary. As a result, the University classifies as permanently restricted net assets the original gift value of true endowments, plus any subsequent gifts and accumulations made in accordance with the directions of the applicable gift instruments. In accordance with accounting standards, the portion of the true endowment fund not classified as permanently restricted net assets is classified as temporarily restricted net assets except when the fair value of the endowment fund is less than its historical dollar value. For these "underwater" funds, the difference between historic dollar value and fair value is reflected in unrestricted net assets.

Temporarily restricted net assets also include gifts and appropriations from the endowment that can be expended, but for which the donors' purpose restrictions have not yet been met, as well as net assets with explicit or implied time restrictions, such as pledges and split interest agreements. 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 restriction lines.

Unrestricted net assets are the remaining net assets of the University.

C. Cash and Cash Equivalents

Cash and cash equivalents include 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. Contributions

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the appropriate categories of net assets in the periods received. A pledge is recorded at the 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 non-operating 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 ("the 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 non-operating expenses.

E. 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 non-marketable 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.

Investment return included in operating revenues consists of amounts appropriated by the Board of Trustees from the pooled endowment, as well as income and realized gains and losses on investments from working capital and non-pooled endowments and similar funds. Unrealized gains and losses on investments, any difference between total return and amounts appropriated from the pooled endowment, and income and realized gains reinvested per donor restrictions are reported as non-operating activities.

F. Fair-Value Hierarchy

The University values certain financial and non-financial assets and liabilities, on a recurring basis, in accordance with a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. Fair value is defined as the price associated with an orderly transaction between market participants at the measurement date. This fair-value hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments, which is based on market data obtained from sources independent of the University. The hierarchy of inputs used to measure fair value, and the primary valuation methodologies used by the University for assets and liabilities measured at fair value, are disclosed below.

The fair value of Level 1 securities is based upon quoted prices in accessible active markets 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 upon 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. Inputs are obtained from various sources, including market participants, dealers, and brokers. In determining fair value of financial instruments, the University considers factors such as interest rate yield curves, duration of the instrument, and counterparty credit risk.

The fair value of Level 2 instruments is determined using multiple valuation techniques including the market approach, income approach, or cost approach.

The fair value of Level 3 securities is based upon valuation techniques that use significant unobservable inputs.

Inputs used in applying the various valuation techniques refer to the assumptions that are used to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors. A financial instrument's level within the fair-value hierarchy is based on the lowest level of any input that is significant to the fair-value measurement. The University considers observable data to be market data that is readily available and reliable and provided by independent sources. The categorization of a financial instrument within the fair-value hierarchy is, therefore, based upon the pricing transparency of the instrument, and does not correspond to the University's perceived risk of that instrument.

G. Derivative 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. The University records the fair value of a derivative instrument within the applicable portfolio. The change in the fair value of a derivative instrument held for investment is included in non-operating 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 non-operating 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 of art, rare books, and other 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. 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. Contributions of split interest agreements, net of related liabilities, increase 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 categories in the non-operating section of the consolidated statement of activities.

J. 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 non-operating activities in the consolidated statement of activities.

K. Endowments

To ensure full compliance with the New York Prudent Management of Institutional Funds Act (NYPMIFA), a supplemental statement to the University's investment policy was adopted and approved by the Board of Trustees in September 2010. The responsibility for accepting, preserving, and managing the funds entrusted to the University rests, by law, with the Board of Trustees; however, the Trustees have delegated authority for investment decisions to the Investment Committee of the Board of Trustees. The Investment Committee determines investment policy, objectives, and guidelines, including allocation of assets between classes of investments.

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 five 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 from the endowment over time so that present and future needs can be treated equitably in inflation-adjusted terms. Diversification is a key component of the University's standard for managing and investing endowment funds, and asset allocation targets are subject to ongoing reviews by the Investment Committee of the Board of Trustees.

The University applies the "prudent person" standard when making its decision whether to appropriate or accumulate endowment funds and considers the following factors: the duration and preservation of the endowment fund, the purposes of the institution and the endowment fund, general economic conditions including the potential effect of inflation or deflation, the expected total return of the fund, other resources of the University, the needs of the University and the fund to make distributions and preserve capital, and the University's investment policy.

The Board authorizes an annual distribution, or payout, from endowment funds that is within a target range of 3.65 percent to 5.15 percent 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, current market conditions, or any of the factors for prudent judgment described above.

Total distributions, or spending, reflected on the consolidated statement of activities includes payout, investment expenses, and service charges that support the general and stewardship costs of the University endowment.

NYPMIFA also established a new requirement related to appropriations from endowments for which the fair value falls below the historic dollar value (i.e., "underwater"). The University, in compliance with NYPMIFA, notified available donors who had established endowments prior to September 17, 2010 of the new law, and offered these donors the option of requiring the University to maintain historical dollar value for their endowment funds. A minority of donors requested this option; for those who did, the University has designed procedures to ensure that the University maintains historical dollar value by not expending the payout on any underwater fund.

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 and in excess of incurred expenditures are recorded as deferred revenues.

M. Medical Physician Organization

The Medical Physician 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 Physician 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 Physician Organization are designated for the respective clinical departments of WCMC.

N. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. GAAP. 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

There were no changes made to the University's consolidated financial statements and accompanying notes related to implementation of new accounting pronouncements.

Effective as of the fiscal year ended June 30, 2013, the University enhanced its disclosures as required by Accounting Standards Update (ASU) 2011-04: Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). The Notes include enhanced information about the valuation techniques and inputs for Level 2 and 3 assets, in addition to quantifiable information about the unobservable inputs used in Level 3 fair value measurements. The enhanced disclosures are reflected in Notes 3, 5 and 6.

Q. Reclassifications

The University reclassified certain prior year expenses within the purchased services, supplies and general, and maintenance and facilities cost lines in the consolidated statement of activities to conform to the current year presentation. There was no effect on total operating expenses as reported in the prior year.

In addition, the University's interest in the risk retention group that provides medical malpractice insurance for WCMC was reclassified from investments to the prepaid expenses and other assets line on the consolidated statement of financial position and affected prior year numbers in all related investment notes (Note 3).

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. In accordance with the accounting standards, the University evaluates its income tax position each fiscal year to determine whether it is more likely than not to be sustained if examined by the applicable taxing authority. This review had no material impact on the University's consolidated financial statements.

2. RECEIVABLES**A. Accounts Receivable**

The University's receivables from the sources identified in the table below are reviewed and monitored for aging and other factors that affect collectability.

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

<u>SUMMARY OF ACCOUNTS RECEIVABLE</u>		
	<u>2014</u>	<u>2013</u>
Grants and contracts	\$ 115,948	\$ 81,729
New York Presbyterian Hospital and other affiliates	37,774	37,625
Patients (net of contractual allowances)	112,897	109,485
Reinsurance receivable	78,222	79,301
Student accounts	6,735	5,341
Other	122,020	58,471
	<u>\$ 473,596</u>	<u>\$ 371,952</u>
Less: allowance for doubtful accounts	(36,836)	(33,901)
Net accounts receivable	<u>\$ 436,760</u>	<u>\$ 338,051</u>

The patient accounts receivable for medical services was comprised of the following at June 30, 2014 and 2013, respectively: commercial third parties 59.5 percent and 56.4 percent; federal/state government 19.8 percent and 18.3 percent; and patients 20.7 percent and 25.3 percent. Note 12 provides additional information related to the reinsurance receivable.

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 1.5 percent to 7.0 percent. During the fiscal year ended June 30, 2014, management performed an analysis of the historical collectability of contributions receivable. The methodology for estimating uncollectible amounts was updated and resulted in a decrease of \$33,857 in the allowance. Contributions are expected to be realized as follows:

SUMMARY OF CONTRIBUTIONS RECEIVABLE

	2014	2013
Less than one year	\$ 346,079	\$ 326,715
Between one and five years	710,680	505,547
More than five years	167,691	147,504
Gross contributions receivable	<u>\$ 1,224,450</u>	<u>\$ 979,766</u>
Less: unamortized discount	(85,316)	(72,842)
Less: allowance for uncollectible amounts	<u>(45,565)</u>	<u>(72,462)</u>
Net contributions receivable	<u>\$ 1,093,569</u>	<u>\$ 834,462</u>

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

EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE

	2014	2013
Support of University operations	\$ 533,701	\$ 403,860
Capital purposes	378,907	244,966
Endowments and similar funds	180,961	185,636
Net contributions receivable	<u>\$ 1,093,569</u>	<u>\$ 834,462</u>

At June 30, 2014, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions and conditional promises with significant requirements, were \$415,871.

C. Student Loans Receivable

In keeping with Ezra Cornell's vision, the University has a "need-blind" policy of admission. Many students receive financial aid that consists of scholarship/fellowship grants, work-study opportunities and, when appropriate, student loans.

Student loan programs are funded by donor contributions, other institutional sources, and governmental programs, primarily the Federal Perkins Loan Program. The amounts received from the federal government's portion of the Perkins program are ultimately refundable to the federal government and are reported as a liability on the University's consolidated statement of financial position as government advances for student loans.

Credit worthiness is not a factor when granting a student a loan from institutional or federal resources; it is based on financial need. However, once the loan is in repayment status, the University monitors, no less than quarterly, the aging of the student loans receivable. If a loan is 75 days past due, the University generally will not release a transcript and/or diploma. If the loan is 180 days past due, the University evaluates whether to assign the account to an external agency for collection.

The University Bursar is required to authorize any write-off of a student loan receivable; such write-offs are based primarily on the aging report and an evaluation of any recent activity in the account. Overall default rates and an evaluation of general economic conditions are reviewed at least annually. The University, because of its close and continuing relationship with its students and graduates, seeks to work closely with the students to help ensure repayment. At June 30, 2014, the average default rate approximates 12.4 percent, with a rate of approximately 3.7 percent on the federal revolving loan portfolio. Student loans are considered to be in default status when over 150 days past due. The average rate includes both the federal loans and the institutional loans. Institutional loans are generally provided to students with unusual financial needs.

Student loans are often subject to unique restrictions and conditions and, therefore, it is not practical to determine their fair values. The allowance for doubtful accounts is for all loans, whether in repayment status or not.

The two tables below provide additional information about the student loan receivables and the allowances associated with federal and institutional loan programs.

SUMMARY OF STUDENT LOANS RECEIVABLE

	2014		2013	
	Receivable	Allowance	Net receivable	Net receivable
Federal revolving loans	\$ 52,067	\$ (2,102)	\$ 49,965	\$ 46,387
Institutional loans	24,982	(2,144)	22,838	23,006
Total student loans receivable	\$ 77,049	\$ (4,246)	\$ 72,803	\$ 69,393

CHANGE IN STUDENT LOAN ALLOWANCE

	2014			2013
	Federal revolving	Institutional	Total allowance	Total allowance
Allowance at beginning of year	\$ (1,930)	\$ (2,534)	\$ (4,464)	\$ (4,762)
Current year provisions	(172)	(59)	(231)	(145)
Current year write-offs	-	449	449	443
Allowance at end of year	\$ (2,102)	\$ (2,144)	\$ (4,246)	\$ (4,464)

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 maintains a number of investment pools or categories for specific purposes as follows:

INVESTMENT POOLS/CATEGORIES AT FAIR VALUE

	2014	2013
Long-term investments (LTI)		
Long-term investment pool (LTIP)	\$ 5,896,264	\$ 5,188,643
Other LTI	313,105	483,852
Total LTI	\$ 6,209,369	\$ 5,672,495
Intermediate-term	352,146	273,497
Separately invested and other assets	286,778	315,463
Total investments	\$ 6,848,293	\$ 6,261,455

Total earnings on the University's investment portfolio for the fiscal years ended June 30 is presented in the following table:

SUMMARY OF INVESTMENT RETURN

	2014	2013
Interest and dividends, net of investment fees	\$ 86,635	\$ 64,887
Net realized gain/(loss)	318,674	196,482
Net unrealized gain/(loss)	476,118	310,476
Total investment return	\$ 881,427	\$ 571,845

B. Fair Value

The University's investment holdings as of June 30, categorized in accordance with the fair-value hierarchy, are summarized in the following table:

INVESTMENTS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2014 Total	2013 Total
Cash and cash equivalents	\$ 464,204	\$ 10,789	\$ -	\$ 474,993	\$ 413,734
Derivatives	(266)	(116)	-	(382)	(11,165)
Equity					
Domestic equity	494,993	183,946	2,623	681,562	557,648
Foreign equity	653,622	223,239	35,383	912,244	655,337
Hedged equity	-	266,678	278,390	545,068	578,010
Private equity	-	-	1,178,884	1,178,884	1,114,779
Fixed income					
Asset backed fixed income	-	30,180	672	30,852	40,721
Corporate bonds	-	425,994	3,015	429,009	347,496
Equity partnership	-	2,314	305,692	308,006	247,943
International	53,208	104,055	8,168	165,431	165,656
Municipals	-	37,603	-	37,603	35,450
Mutual funds (non-equity)	-	49,699	-	49,699	50,583
Preferred/convertible	5,307	16,394	5,083	26,784	20,676
Other fixed income	-	5,847	25	5,872	208
US government	91,707	216,697	-	308,404	373,894
Marketable alternatives	-	68,425	626,454	694,879	706,618
Real assets	-	-	1,001,652	1,001,652	980,194
Receivable for investments sold	20,730	-	-	20,730	23,642
Payable for investments purchased	(43,206)	-	-	(43,206)	(59,586)
Other	-	-	20,209	20,209	19,617
Total investments	\$ 1,740,299	\$ 1,641,744	\$ 3,466,250	\$ 6,848,293	\$ 6,261,455
Securities not included in investment portfolio					
Cash and cash equivalents	\$ 89,408	\$ -	\$ -	\$ 89,408	\$ 178,781

Level 1 investments consist of cash and cash equivalents, equity, and fixed-income securities with observable market prices. Fair value is readily determinable based on quoted prices in active markets. Unsettled trade receivable and payable valuations are reflective of cash settlements subsequent to the fiscal year-end and are also categorized as Level 1. The University does not adjust the quoted price for such instruments, even in situations where the University holds a large position and a sale of all its holdings could reasonably impact the quoted price.

Investments that are classified as Level 2 include domestic, foreign and hedged equities, and fixed income securities that trade in markets that are not considered to be active. Fair value is based on observable inputs for similar instruments in the market, and obtained by various sources including market participants, dealers, and brokers; the University's custodian secures pricing for these assets. The fair value of derivative investments is based on market prices from the financial institution that is the counterparty to the derivative.

Level 3 investments have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value are based upon the best information in the circumstance and may require significant management judgment. Investments included in Level 3 consist primarily of the University's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds).

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITY

	Fair value at June 30, 2013	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2014
Equity							
Domestic equity	\$ 11,551	\$ 1,552	\$ 1,333	\$ 5,550	\$ (17,363)	\$ -	\$ 2,623
Foreign equity	41,389	(8)	1,085	31,680	(3,438)	(35,325)	35,383
Hedged equity	171,231	36,672	(67,390)	5,025	(41,672)	174,524	278,390
Private equity	1,114,779	149,233	72,777	119,094	(276,999)	-	1,178,884
Fixed income							
Asset backed fixed income	773	-	-	-	(101)	-	672
Corporate bonds	-	176	26	5,502	(2,689)	-	3,015
Equity partnership	244,227	28,439	1,019	117,825	(85,818)	-	305,692
International	6,566	42	1,022	761	(223)	-	8,168
Preferred/convertible	5,827	(23)	404	38	(485)	(678)	5,083
Other	-	-	-	25	-	-	25
Marketable alternatives							
Real assets	596,148	4,633	67,737	30,654	(72,718)	-	626,454
Other	980,194	39,428	82,383	105,554	(205,907)	-	1,001,652
Other	19,617	-	1,066	126	(600)	-	20,209
Total level 3 investments	\$ 3,192,302	\$ 260,144	\$ 161,462	\$ 421,834	\$ (708,013)	\$ 138,521	\$ 3,466,250

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, 2014.

Transfers out of Level 3 into Level 2 include \$35,325 of foreign equity and \$678 of preferred/convertible fixed income. The transfers were a result of increased liquidity due to class roll-ups and a change in observable inputs used in the pricing methodology. Transfers into Level 3 from Level 2 include \$174,524 of hedged equity. Transfers into Level 3 were a result of less favorable liquidity terms of the underlying assets.

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 upon appraisal 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.

As a practical expedient, the University uses its ownership interest in the NAV to determine the fair value of all alternative investments that do not have a readily determinable fair value, and have financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Investments that can be redeemed at NAV by the University on the measurement date or in the near term (90 days or less) are classified as Level 2. Investments that cannot be redeemed on the measurement date or in the near term are classified as Level 3. The following tables list investments in investment companies (in partnership or equivalent format) by major category:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

SUMMARY OF ALTERNATIVE INVESTMENTS MEASURED USING NET ASSET VALUE

Asset class	Strategy	NAV in funds	Remaining life	Unfunded commitments	Timing to draw commitments
Private equity	Buyout	\$ 346,533		\$ 156,394	
	Special situation	310,510		72,504	
	Venture capital	503,100		170,279	
	Total private equity	\$ 1,160,143	1 to 10 years	\$ 399,177	1 to 10 years
Real assets	Real estate	670,169		158,818	
	Natural resource	310,719		328,846	
	Total real assets	\$ 980,888	1 to 10 years	\$ 487,664	1 to 10 years
Fixed income	Distressed	147,566		111,385	
	Leveraged loans	15,457		30,000	
	Mezzanine	60,713		72,874	
	Multi-strategy	84,164		26,210	
	Total fixed income	\$ 307,900	1 to 10 years	\$ 240,469	1 to 10 years
Foreign equity	Emerging markets	88,148			
	Global equity	156,246			
	Total foreign equity	\$ 244,394			
Hedged equity	Global equity long/short	200,350			
	U.S. equity long/short	344,693			
	Total hedged equity	\$ 545,043			
Marketable alternatives	Event driven	93,934			
	Global macro	30,076			
	Multi-strategy	170,749			
	Relative value	70,279			
	Special opportunity	329,809			
	Total marketable alternatives	\$ 694,847			
Domestic equity	Indexed	106,751			
	Total domestic equity	\$ 106,751			
Total for alternative investments using NAV		\$ 4,039,966		\$ 1,127,310	

REDEMPTION INFORMATION FOR ALTERNATIVE INVESTMENTS MEASURED USING NET ASSET VALUE

Asset class	Redemption terms	Redemption restrictions*
Private equity	n/a **	n/a
Real assets	n/a **	n/a
Fixed income	Annual redemption with 90 days notice***	No lock up provisions
Foreign equity	Ranges between monthly redemption with 10 days notice, to semi-annual redemption with 60 days notice	No lock up provisions
Hedged equity	Ranges between quarterly redemption with 30 days notice, to triennial redemption with 30 days notice	55% of NAV has remaining lock up provisions ranging from 6 months to 36 months
Marketable alternatives	Subject to annual redemption with 90 days notice	3.2% of NAV has remaining lock up provisions ranging from 6 months to 18 months
Domestic equity	Daily redemption with 2 days notice	No lock up provisions

* Represents initial investment lock up restriction. No other material redemption restrictions, such as redemption gates, were in place at year end.

**These funds are in private equity structure, with no ability to be redeemed.

***96.6% of NAV is in private equity structure, with no ability to be redeemed. Redemption provisions for the remaining 3.4% are shown above.

Of the Level 3 domestic, foreign, hedged, and private equities, 98 percent are valued at NAV, as described above. Other equities not priced by qualified third parties (e.g., brokers, pricing services, etc.) are valued using discounted cash flow, taking into account various factors including nonperformance risk, counterparty risk, and marketability. Investment value is also derived using a market approach through comparison to recent and relevant market multiples of comparable companies. Start-up assets, held by the University's student-run venture fund, are maintained at or near initial investment amounts due to the nature of the activity.

Of the Level 3 fixed income assets, 95 percent are valued at NAV, as described above. Asset-backed fixed income investments are valued using discounted cash flows. Preferred/convertible fixed income investments are valued using discounted cash flows or a market approach using a dividend multiplier. Investments in start-up companies, as described above, are valued at or near initial investment amounts.

Level 3 real assets represent directly owned real estate, real estate interests held through limited partnerships, and oil or mineral rights. The fair value of real estate held through limited partnerships is based on NAV and represents 98 percent of real asset investments. To the extent feasible, third party appraisals are used to value real estate directly owned by the University. If current appraisals are not available, fair value is based on the capitalization rate valuation model or discounted cash flow, corroborated by local market data, if available. Oil and mineral rights are valued based on industry standard revenue multiplier methodologies or discounted cash flow.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

The following table provides additional information related to the valuation of the investments classified by the University as Level 3.

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENT

	Level 3 fair value	Valuation technique(s)	Unobservable input	Range (weighted average)
Equity				
Domestic equity	\$ 2,202	Start-up valuation		
	409	Third-party pricing		
	12	NAV		
	<u>2,623</u>			
Foreign equity	32,678	NAV		
	2,705	Third-party pricing		
	<u>35,383</u>			
Hedged equity	278,365	NAV		
	25	Start-up valuation		
	<u>278,390</u>			
Private equity	1,160,143	NAV		
	15,381	Discounted cash flow/market comparable	Discount rate Discount for lack of marketability	4.2% - 12.1% (5.0%) 15% - 20% (19.7%)
			Earnings multiple	8.5x
			Revenue multiple	1.8x
	3,211	Third-party pricing		
	149	Start-up valuation		
	<u>1,178,884</u>			
Fixed income				
Asset backed fixed income	672	Discounted cash flow	Discount rate	5.8%
	<u>672</u>			
Corporate bonds	3,015	Third-party pricing		
	<u>3,015</u>			
Equity partnership	305,692	NAV		
	<u>305,692</u>			
International	8,168	Third-party pricing		
	<u>8,168</u>			
Preferred/convertible	4,830	Market comparable	Dividend multiple	15.8x - 20.6x (19.6x)
	253	Start-up valuation		
	<u>5,083</u>			
Other fixed income	25	Start-up valuation		
	<u>25</u>			
Marketable alternatives	626,454	NAV		
	<u>626,454</u>			
Real assets	980,888	NAV		
	9,914	Cap rate valuation model	Capitalization rate	5.0% - 7.5% (6.1%)
	5,671	Discounted cash flow	Discount rate	15%
			Years to maturity	12
	3,020	Third-party pricing		
	2,159	Sales comparison approach	Recent transactions	
	<u>1,001,652</u>			
Other	13,473	Third-party pricing		
	6,610	Discounted cash flow	Discount rate	2.6% - 5.3% (3.0%)
			Years to maturity	8.0 - 12.1 (8.6)
	126	Start-up valuation		
	<u>20,209</u>			
Total level 3 investments	\$ 3,466,250			

The methods described above may produce a fair-value calculation that is not 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.

C. Derivative Holdings

The use of certain financial derivative instruments is governed by either the University's written investment policy, specific manager guidelines, or partnership/fund agreement documents. Specifically, financial derivative instruments may be used to manage foreign currency exposure, to obtain commodity exposure, to create synthetic exposure, or to obtain protection against increases in interest rates. These derivatives, based on definitions in GAAP, are not designated as hedging instruments.

As part of its overall diversification strategy, the University allocates a percentage of its assets to investment managers specializing in securities whose prices are denominated in foreign currencies. The investment guidelines provide discretion to these managers to adjust the foreign currency exposure of their investment portfolios by using derivative instruments. The derivatives are used for buying or selling foreign currency under a short-term contract to lock in the dollar cost of a specific pending purchase or sale of a foreign security, and selling foreign currency under a longer-term contract to hedge against a general decline in the dollar value of foreign security holdings.

As part of its overall investment strategy, the University's investment managers manage a diversified portfolio of commodity futures under strict investment guidelines. These commodity futures are fully collateralized and are denominated in U.S. dollars.

Some investment managers have discretion, limited by overall investment guidelines, to use derivative instruments to create investment exposures that could not be created as efficiently with other types of investments. These synthetic exposures in the University's portfolio consist of four types: 1) forward contracts used to increase exposure to a foreign currency beyond the level of underlying security investments in that currency; 2) futures contracts used to create exposures to assets where the futures market provides a more efficient investment than the underlying securities; 3) swap contracts, also used to provide a more efficient means to gain exposure than the underlying securities; and 4) option contracts used to adjust the exposure of the long-term portfolio to interest rate volatility.

The University entered into option contracts on interest rates swaps as a way to mitigate the impact of a significant rise in interest rates in the future. Under terms of certain option contracts on interest rate swaps, the University is obligated to make future premium payments. At June 30, 2014 and 2013, the University had unfunded premium payment commitments of \$12,404 and \$17,588, respectively. The University's premium payment schedule is as follows: \$4,809 for the year ending June 30, 2015; \$2,474 for the year ending June 30, 2016; \$1,024 annually for the years ending June 30, 2017, 2018 and 2019; and \$2,049 thereafter.

The following tables provide detailed information on the derivatives included in the investment portfolio as of June 30. All the derivatives have been deemed Level 2 in the fair-value hierarchy.

FAIR VALUE OF DERIVATIVE HOLDINGS IN STATEMENT OF FINANCIAL POSITION

Location	Derivative type	2014			2013		
		Notional amount	# of Contracts	Level 2 fair value	Notional amount	# of Contracts	Level 2 fair value
Investments	Foreign currency	\$ -	67	\$ (632)	\$ -	73	\$ 376
	Commodity	264,279	76	408	278,961	56	(13,151)
	Synthetic	47,683	28	(227)	(26,732)	75	438
	Interest rate	444,703	4	68	444,703	4	1,172
	Total fair value	\$ 756,665	175	\$ (383)	\$ 696,932	208	\$ (11,165)

EFFECT OF DERIVATIVE HOLDINGS ON STATEMENT OF ACTIVITIES

Location	Derivative Type	2014	2013
		Unrealized gain/(loss)	Unrealized gain/(loss)
Investment return, net of amount distributed	Foreign currency	\$ (547)	\$ 376
	Commodity	408	(13,151)
	Synthetic	(331)	462
	Interest rate	(19,242)	(12,954)
	Total unrealized gain/(loss)	\$ (19,712)	\$ (25,267)

The unrealized gain/loss from derivative holdings affects temporarily restricted net assets for LTIP shares in the permanent endowment; otherwise, the gain/loss affects unrestricted net assets. The net unrealized gain/loss is reported in the operating section of the consolidated statement of cash flow as net realized and unrealized gain/loss on investments.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are detailed as follows:

LAND, BUILDINGS, AND EQUIPMENT		
	Book value at June 30, 2014	Book value at June 30, 2013
Land, buildings, and equipment	\$ 4,833,428	\$ 4,152,905
Furniture, equipment, books, and collections	1,173,595	1,125,890
Construction in progress	354,044	711,897
Total before accumulated depreciation	\$ 6,361,067	\$ 5,990,692
Accumulated depreciation	(2,647,251)	(2,446,227)
Net land, buildings, and equipment	\$ 3,713,816	\$ 3,544,465

Certain properties, for which the University has possession and beneficial use for an indefinite period and which other entities may also record as assets, are included in the consolidated statement of financial position, as follows: (1) land, buildings, and equipment of the Contract Colleges aggregating \$690,063 and \$671,241 at June 30, 2014 and 2013, 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 \$470 and \$471 at June 30, 2014 and 2013, respectively.

The future commitments on capital projects in progress, excluding projects funded by New York State, are \$208,485 and \$129,523 for the fiscal years ended June 30, 2014 and 2013, respectively.

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

The University reports its obligations under split interest agreements at fair value. The fair value of the obligation is calculated annually and considered Level 3 in the fair-value hierarchy. The discount rate is based on average return of investment grade corporate bonds, weighted using a schedule of actuarial estimates of the lives of the income beneficiaries and the relative value of the agreements.

The University's interest in funds held in trust by others is considered Level 3, based on unobservable inputs, in the 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 funds' trustees. The discount rates used to estimate present value are based on the average return of investment grade corporate bonds, weighted according to a schedule of actuarial estimates.

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 AND LEVEL 3 QUANTITATIVE INFORMATION

	Valuation methodologies	Unobservable inputs	Range (weighted average)	2014 Total	2013 Total
Funds held in trust by others					
Remainder	Present value calculation	Discount rate Years to maturity	3.50% 0-59 (11)	\$ 62,453	\$ 56,687
Lead and perpetual	Discounted cash flow	Discount rate	4.70%	51,759	46,604
Total funds held in trust by others				\$ 114,212	\$ 103,291
Obligations under split interest agreements	Discounted cash flow	Discount rate Years to maturity	3.60% 0-59 (13)	\$ 126,224	\$ 116,344

SUMMARY OF LEVEL 3 SPLIT INTEREST AGREEMENT ACTIVITY

	Fair value at June 30, 2013	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2014
Funds held in trust by others							
Remainder	\$ 56,687	\$ 1,793	\$ 7,901	\$ 1,380	\$ (5,308)	\$ -	\$ 62,453
Lead and perpetual	46,604	5,816	117	-	(778)	-	51,759
Total funds held in trust by others	\$ 103,291	\$ 7,609	\$ 8,018	\$ 1,380	\$ (6,086)	\$ -	\$ 114,212
Obligations under split interest agreements	\$ 116,344	\$ -	\$ 9,880	\$ -	\$ -	\$ -	\$ 126,224

6. DEFERRED BENEFITS

A. General Information

Accrued employee benefit obligations as of June 30 include:

SUMMARY OF DEFERRED BENEFITS

	2014	2013
Postemployment benefits	\$ 29,147	\$ 28,469
Pension and other postretirement benefits	256,549	229,272
Other deferred benefits	190,755	187,909
Total deferred benefits	\$ 476,451	\$ 445,650

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 retirement 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 WCMC are carried by the Teachers Insurance and Annuity Association, the College Retirement Equities Fund, the Vanguard Group (WCMC only), and Fidelity Investments (Endowed Ithaca only), all of which permit employee contributions. Total costs of the Endowed Ithaca and WCMC plans for the fiscal years ended June 30, 2014 and 2013 amounted to \$92,807 and \$92,466, respectively.

WCMC maintains the University's only defined benefit plan. The participants include non-exempt employees at WCMC who meet the eligibility requirements for participation. The plan was frozen in 1976 for exempt employees at WCMC and the accrued benefits were merged with the active non-exempt retirement plan in 1989.

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, and accrues the cost of these benefits during the service lives of employees. The University elected the prospective transition approach and amortized 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	
	2014	2013	2014	2013
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 69,953	\$ 60,557	\$ 197,270	\$ 172,631
Actual return on plan assets	12,286	9,216	37,313	24,640
Employer contribution	5,500	2,910	17,926	3,295
Benefits paid	(5,882)	(2,730)	(4,141)	(3,296)
Fair value of plan assets at end of year	\$ 81,857	\$ 69,953	\$ 248,368	\$ 197,270
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 90,704	\$ 81,194	\$ 405,791	\$ 387,352
Service cost (benefits earned during the period)	5,232	5,431	17,019	17,879
Interest cost	5,001	4,074	21,151	18,880
Actuarial (gain)/loss	17,107	2,735	44,923	(5,122)
Gross benefits paid	(5,882)	(2,730)	(15,634)	(13,474)
Less: federal subsidy on benefits paid	-	-	1,362	276
Projected benefit obligation at end of year	\$ 112,162	\$ 90,704	\$ 474,612	\$ 405,791
Funded status	\$ (30,305)	\$ (20,751)	\$ (226,244)	\$ (208,521)
Amounts recognized in the consolidated statement of financial position	\$ (30,305)	\$ (20,751)	\$ (226,244)	\$ (208,521)
Amounts recorded in unrestricted net assets not yet amortized as components of net periodic benefit cost				
Prior service cost	\$ (692)	\$ (783)	\$ (62)	\$ (138)
Net actuarial (gain)/loss	17,233	7,653	36,399	13,718
Amount recognized as reduction in unrestricted net assets	\$ 16,541	\$ 6,870	\$ 36,337	\$ 13,580

The accumulated benefit obligation for the pension plans was \$95,465 and \$79,583 at June 30, 2014 and 2013, 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	
	2014	2013	2014	2013
Service cost (benefits earned during the period)	\$ 5,232	\$ 5,431	\$ 17,019	\$ 17,879
Interest cost	5,001	4,074	21,151	18,880
Expected return on plan assets	(4,909)	(4,282)	(15,071)	(12,602)
Amortization of initial transition obligation	-	-	-	3,644
Amortization of prior service cost	(92)	(92)	(76)	(76)
Amortization of net (gain)/loss	150	318	-	1,454
Net periodic benefit cost	\$ 5,382	\$ 5,449	\$ 23,023	\$ 29,179

The amounts of prior service costs and actuarial gains/losses that will be amortized into net periodic benefit cost for the year ending June 30, 2015 are estimated as follows:

ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST

	<u>Pension benefits</u>	<u>Other postretirement</u>
Prior service cost	\$ (92)	\$ (62)
Net actuarial (gain)/loss	556	-
Total	\$ 464	\$ (62)

E. Actuarial Assumptions

Assumptions used in determining the pension and postretirement plan's benefit obligations and net periodic costs are:

SUMMARY OF ACTUARIAL ASSUMPTIONS

	<u>Pension benefits</u>		<u>Other postretirement</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Used to calculate benefit obligations at June 30				
Discount rate	4.55%	5.20%	4.47% / 4.39%	5.04% / 4.89%
Rate of compensation increase	3.00%	3.00%		
Used to calculate net periodic cost at July 1				
Discount rate	5.20%	4.70%	5.04% / 4.89%	4.56% / 4.39%
Expected return on plan assets	7.00%	7.00%	7.30%	7.30%
Rate of compensation increase	3.00%	3.00%		
Assumed health care cost trend rates				
Health care cost trend rate assumed for next year	n/a	n/a	6.50%	7.00%
Ultimate trend rate	n/a	n/a	4.50%	4.50%
Years to reach ultimate trend rate	n/a	n/a	4	5

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 \$86,320 and the annual service and interest cost by \$7,781. Decreasing the health care cost trend rate by 1 percent in each future year would decrease the benefit obligation by \$64,910 and the annual service and interest cost by \$5,993.

F. Plan Assets

The University's overall investment objectives for the pension plan and postretirement medical benefit plan assets are broadly defined to include an inflation-adjusted rate of return that seeks growth commensurate with a prudent level of risk. To achieve this objective, the University has established fully discretionary trusts with JP Morgan as trustee and investment manager for WCMC's defined benefit pension plan and the postretirement medical benefit plan for the University's endowed employees on the Ithaca campus. Under those trust agreements, JP Morgan establishes investment allocations and implements those allocations through various investment funds in order to carry out the investment objectives. JP Morgan has also been appointed as investment manager for WCMC's postretirement medical benefit plan with full discretion as to investment allocations in specific named funds managed by JP Morgan.

The University's Retirement Plan Oversight Committee (RPOC) provides guidance and oversight for the University's retirement plans, including oversight of asset allocation and the performance of both the defined benefit pension plan and the postretirement medical benefit plans. The RPOC, in conjunction with its outside consultant, regularly reviews the investment strategies, along with evolving institutional objectives, and will make recommendations regarding possible changes to asset allocation and investment managers accordingly.

Risk mitigation is achieved by diversifying investments across multiple asset classes, investing in high quality securities, and permitting flexibility in the balance of investments in the recommended asset classes. Market risk is inherent in any portfolio, but the investment policies and strategies are designed to avoid concentration of risk in any one entity, industry, country, or commodity. The funds in which the plan assets are invested are well-diversified and managed to avoid concentration of risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

The expected rate of return assumptions are based on the expertise provided by investment managers at the trustee bank. The factors that impact the expected rates of return for various asset types includes assumptions about inflation, historically based real returns, anticipated value added by investment managers, and expected average asset allocations. The expected return on plan assets by category for the fiscal year ended June 30, 2014 are similar to the prior fiscal year: 7.7 percent on equity securities, 4.6 percent on fixed income securities, and 6.0 percent on real estate compared to 7.7 percent, 4.6 percent and 6.5 percent, respectively.

The fair value of the pension plan assets and postretirement medical benefit plan assets are categorized according to the fair-value hierarchy. Both the pension plan and postretirement medical benefit plans invest in funds to meet their investment objectives. The asset allocation is based on the underlying assets of the various funds. The fair-value level is based upon each fund as the unit of measure. The fair value of the plans' assets as of June 30 and the rollforward for Level 3 assets are disclosed in the tables below.

SUMMARY OF PLAN ASSETS

	Target allocation	Pension benefits		Other postretirement	
		2014	2013	2014	2013
Percentage of plan assets					
Equity securities	39-85%	64.0%	65.0%	73.0%	74.0%
Fixed income securities	15-55%	30.0%	29.0%	27.0%	26.0%
Real estate	0-5%	6.0%	6.0%	0.0%	0.0%
Total		100.0%	100.0%	100.0%	100.0%

PENSION PLAN ASSETS AT FAIR VALUE

	Level 1	Level 2	Level 3	2014	2013
	fair value	fair value	fair value	Total	Total
Cash and cash equivalents					
Money market	\$ 194	\$ 2	\$ -	\$ 196	\$ 193
Equity securities					
U.S. small cap	-	6,651	-	6,651	5,834
U.S. large cap	-	27,758	-	27,758	24,198
U.S. REITS	-	2,030	-	2,030	1,770
Emerging markets	-	4,895	-	4,895	4,267
International equity	-	11,020	-	11,020	9,702
Fixed income securities					
U.S. high yield bonds	-	3,667	-	3,667	3,514
Corporate bonds	-	13,909	-	13,909	10,581
Mortgage-backed securities	-	1,917	2,928	4,845	4,207
International fixed income	-	1,620	-	1,620	1,331
Other types of investments					
Real estate	-	-	5,266	5,266	4,356
Total assets	\$ 194	\$ 73,469	\$ 8,194	\$ 81,857	\$ 69,953

SUMMARY OF LEVEL 3 PENSION PLAN ACTIVITY

	Fair value, June 30, 2013	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value, June 30, 2014
	Mortgage-backed securities	\$ 2,382	\$ -	\$ 171	\$ 375	\$ -	\$ -
Real estate	4,356	-	406	748	(244)	-	5,266
Total Level 3 assets	\$ 6,738	\$ -	\$ 577	\$ 1,123	\$ (244)	\$ -	\$ 8,194

POSTRETIREMENT PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2014 Total	2013 Total
Cash and cash equivalents					
Money market	\$ 421	\$ 1,941	\$ -	\$ 2,362	\$ 5,558
Equity securities					
U.S. small cap	-	27,824	-	27,824	22,518
U.S. large cap	-	78,661	-	78,661	62,188
Emerging markets	-	27,631	-	27,631	22,508
International equity	-	40,514	-	40,514	34,191
U.S. REITS	-	6,280	-	6,280	5,222
Fixed income securities					
U.S. high yield bonds	-	9,522	-	9,522	8,306
Corporate bonds	-	50,443	-	50,443	32,772
Emerging markets debt	-	5,131	-	5,131	4,007
Total assets	\$ 421	\$ 247,947	\$ -	\$ 248,368	\$ 197,270

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			
2015	\$ 5,500	\$ 11,697	n/a
Future benefit payments			
2015	\$ 4,420	\$ 18,361	\$ 1,997
2016	4,717	20,089	2,192
2017	5,411	21,632	2,406
2018	5,296	23,275	2,637
2019	5,413	24,956	2,859
2020-2024	32,034	149,991	18,165

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, 2014 and 2013 were \$21,318 and \$20,074, 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 value of the funds included on the investment line in the consolidated statement of financial position was \$308,339 and \$203,171 for the fiscal years ended June 30, 2014 and 2013, respectively. The University recognizes an offsetting liability for funds held in trust for others, with one adjustment described below.

The New York Hospital-Cornell Medical Center Fund, Inc. (Center Fund), which benefits the Weill Cornell Medical College and the New York-Presbyterian Hospital, is the major external organization invested in the University's long-term investment portfolio with assets and an offsetting liability of \$179,557 and \$162,501 for the fiscal years ended June 30, 2014 and 2013, respectively. Because WCMC holds a significant beneficial interest in the assets of the Center Fund, the liability is reduced by \$95,507 and \$87,657, for the fiscal years ended June 30, 2014 and 2013, respectively, representing the future income stream that will benefit WCMC.

The Boyce Thompson Institute for Plant Research (BTI) is an independent, non-profit organization whose mission is to advance and communicate scientific knowledge in plant biology to improve agriculture, protect the environment, and enhance human health. In 2013, the University entered into an agreement with BTI to invest a portion of its endowment. At June 30, 2014, the fair value of BTI investments was \$87,488 with an offsetting liability on the University's consolidated statement of financial position.

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

	<u>2014</u>	<u>2013</u>	<u>Interest rates</u>	<u>Final maturity</u>
Dormitory Authority of the State of New York (DASNY)				
Revenue Bond Series				
1990B-fixed rate	\$ 40,095	\$ 42,820	3.00 to 5.00%	2025
2000A-variable rate/weekly	44,870	47,025	0.04 to 0.13	2029
2000B-variable rate/weekly	61,160	63,705	0.04 to 0.13	2030
2004-variable rate/weekly	74,175	76,725	0.02 to 0.12	2033
2006-fixed rate	162,370	173,490	4.00 to 5.00	2035
2008B&C-fixed rate	117,860	120,470	5.00	2037
2009-fixed rate	287,710	293,705	3.00 to 5.00	2039
2010-fixed rate	285,000	285,000	4.00 to 5.00	2040
Tax-exempt commercial paper	52,890	54,390	0.10 to 0.17	2037
Tompkins County Industrial Development Agency (TCIDA)				
2002A-variable rate/weekly	37,410	38,985	0.02 to 0.11	2030
2002B-variable rate/weekly	15,390	15,390	0.02 to 0.11	2015
2008A-fixed rate	64,165	65,705	3.00 to 5.00	2037
Urban Development Corporation	1,875	2,000	-	2029
2009 Taxable-fixed rate	250,000	500,000	4.35 to 5.45	2019
Taxable commercial paper	68,500	73,500	0.13 to 0.22	-
Other	2,395	2,495	6.63	2029
Total bonds and notes payable	\$ 1,565,865	\$ 1,855,405		

The University's bonds and notes payable had carrying amounts of \$1,565,865 and \$1,855,405 at June 30, 2014 and 2013, respectively, compared to estimated fair values of approximately \$1,724,446 and \$1,967,483 at June 30, 2014 and 2013, respectively. The University determines the fair value of its existing fixed-rate debt obligations based on trade data, broker/dealer quotes and other observable market data. The carrying amounts of its variable-rate debt obligations approximate fair value because the obligations are currently callable at a price equal to the carrying amounts. The University's debt is classified as Level 2 in the fair-value hierarchy.

The following table provides the amounts of interest paid for the fiscal years ended June 30.

SUMMARY OF INTEREST EXPENSE

	2014	2013
Interest expense to bondholders and other debt	\$ 71,716	\$ 73,352
Interest expense paid on swap agreements	26,744	30,291
Capitalized interest on capital assets	(7,270)	(11,178)
Total interest expense	\$ 91,190	\$ 92,465

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 DASNY Revenue Bond Series 1990B agreement, the bonds are a general obligation of the University and are secured by a pledge of revenue. The University is not required to pledge revenue on other bonds outstanding.

The University maintains tax-exempt and taxable commercial paper programs. Tax-exempt commercial paper is used to finance qualified capital projects and equipment purchases for the Ithaca and WCMC campuses. Taxable commercial paper is also used for these purposes, and can be used to finance short-term working capital needs. The maximum authorized amount of each commercial paper 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
2015	\$ 42,852	\$ 98,374	\$ 141,226
2016	28,639	92,347	120,986
2017	29,972	86,451	116,423
2018	31,385	81,632	113,017
2019	282,809	78,140	360,949
Thereafter	1,150,208	790,205	1,940,413
Total	\$ 1,565,865	\$ 1,227,149	\$ 2,793,014

The University estimates future interest payments on variable-rate debt based on the five-year Securities Industry and Financial Markets Association (SIFMA) swap rate for tax-exempt debt and the five-year London Interbank Offered Rates (LIBOR) swap rate for taxable debt.

B. Interest Rate Swaps

The University approved the use of interest rate swaps to mitigate interest rate risk for its debt portfolio. Interest rate swaps are derivative instruments; however, their use by the University is not considered to be hedging activity, based on definitions in generally accepted accounting principles.

Through the use of interest rate swap agreements, the University is exposed to the risk that counterparties will fail to meet their contractual obligations. To mitigate risk, the University maintains a \$400 million dollar-limit swap exposure for each counterparty. Master agreements with counterparties include netting arrangements that permit the University to net amounts due to the counterparty with amounts due from the counterparty. Utilizing netting arrangements reduces the maximum loss in the event of counterparty default.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

The University's swap agreements contain a credit-rating-contingent feature in which the counterparties can request collateral on agreements in net liability positions. The University could be required to post collateral if the University's credit rating is downgraded to A1 or A+. At June 30, 2014 and 2013, the University did not have collateral on deposit with any counterparty.

The University's interest rate swaps are valued by an independent third party that uses the mid-market levels, as of the close of business, to value each agreement. The valuations provided are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and the University's credit worthiness. The University's interest rate swaps are classified as Level 2 in the fair-value hierarchy.

At June 30, 2014, the University had six interest rate swap agreements to exchange variable-rate cash flows for fixed-rate cash flows without the exchange of the underlying principal amount. Net payments or receipts under five of these swap agreements are recorded as adjustments to interest expense and the incremental interest expense is disclosed in the table below. One swap agreement is a forward-starting swap that commences net payments in July 2014. During the fiscal year ended June 30, 2014, the University terminated a swap with Morgan Stanley Capital Services, LLC that had an outstanding notional amount of \$63,200. The change in value of interest rate swaps on the consolidated statement of activities represents a \$13,526 loss on the termination of the swap and a \$674 increase in the fair value resulting in a net loss of \$12,852. The interest expense related to these swaps is included in the interest expense on the consolidated statement of activities. In all agreements in effect at June 30, 2014, the counterparty pays a variable interest rate equal to a percentage of the one-month LIBOR.

The following table provides detailed information on the interest rate swaps at June 30, 2014, with comparative fair values for June 30, 2013. The swaps are reported based on notional amount.

FAIR VALUE OF INTEREST RATE SWAPS IN STATEMENT OF FINANCIAL POSITION

Location	Notional amount	Interest rate	Commencement	Termination date	Basis	2014 Level 2 fair value	2013 Level 2 fair value
Accounts payable and accrued expenses							
	\$ 97,025	2.99 %		October 1, 2015	LIBOR	\$ (3,533)	\$ (5,909)
	38,985	4.52		July 1, 2030	LIBOR	(8,706)	(15,803)
	65,600	4.63		July 1, 2030	LIBOR	-	(8,967)
	96,250	3.92		July 1, 2038	LIBOR	(20,811)	(20,236)
	275,000	3.88		July 1, 2040	LIBOR	(77,092)	(71,363)
	200,000	3.48		July 1, 2041	LIBOR	(36,062)	(34,106)
	200,000	3.77	July 1, 2014	July 1, 2044	LIBOR	(44,115)	(34,610)
Total fair value						\$ (190,319)	\$ (190,994)

Activity related to interest rate swaps affects unrestricted net assets, and in the consolidated statement of cash flows, is presented on the change in value of interest rate swaps line in the operating activities section.

C. Standby Bond Purchase Agreements

The University has standby bond purchase agreements with various financial institutions to purchase any of the University's variable-rate demand bonds in the event that these bonds cannot be remarketed. In the event that the bonds covered by these standby bond purchase agreements cannot be remarketed and the agreements are not otherwise renewed, the University would be required to redeem the bonds or refinance the bonds in a different interest rate mode. In the event that the bonds cannot be remarketed and the University did not redeem, the Annual Debt Service Requirements table would be increased by \$24,610 for fiscal year 2015, \$174,350 for fiscal year 2016, and \$34,045 for fiscal year 2017. Detailed information about the standby purchase agreements is shown in the following table:

SUMMARY OF STANDBY PURCHASE AGREEMENTS

Series	Provider	Expiration
2000A	JP Morgan Chase	Jul-16
2000B	JP Morgan Chase	Jul-16
2002A	Northern Trust	Jun-17
2002B	Northern Trust	Jul-15
2004A&B	HSBC Bank	Apr-16

D. Lines of Credit

The University records the working capital lines of credit activity and outstanding balances as other liabilities in the consolidated statement of financial position. The two \$100 million lines of credit have annual expiration dates of December 31 and April 1. As of June 30, 2014 and 2013, the University had not 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 \$26,009 and \$25,108 for the fiscal years ended June 30, 2014 and 2013, respectively. The future annual minimum lease payments in the following table are payments under operating leases expiring at various dates through June 30, 2068.

ANNUAL MINIMUM OPERATING LEASE PAYMENTS	
Year	Payments
2015	\$ 24,780
2016	24,744
2017	28,045
2018	27,960
2019	29,093
Thereafter	332,698
Total minimum operating lease payments	\$ 467,320

10. FUNCTIONAL EXPENSES AND STUDENT AID

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

FUNCTIONAL EXPENSES		
	2014	2013
Instruction	\$ 775,394	\$ 722,732
Research	529,554	555,276
Public service	125,028	122,544
Academic support	252,967	234,869
Student services	142,483	144,294
Medical services	841,664	762,874
Institutional support	488,152	454,566
Enterprises and subsidiaries	254,460	235,037
Total expenses	\$ 3,409,702	\$ 3,232,192

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 \$ 217,550 and \$234,907 for the fiscal years ended June 30, 2014 and 2013, 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 \$44,472 and \$46,265 for the fiscal years ended June 30, 2014 and 2013, 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	2014 Total	2013 Total
Endowment					
True endowment	\$ (9,725)	\$ 1,717,488	\$ 2,302,950	\$ 4,010,713	\$ 3,511,575
Funds functioning as endowment (FFE)	1,417,140	317,016	-	1,734,156	1,628,640
Total true endowment and FFE	\$ 1,407,415	\$ 2,034,504	\$ 2,302,950	\$ 5,744,869	\$ 5,140,215
Funds held by others, perpetual	-	-	145,079	145,079	132,013
Total University endowment	\$ 1,407,415	\$ 2,034,504	\$ 2,448,029	\$ 5,889,948	\$ 5,272,228
Other net assets					
Operations	(315,082)	288,359	-	(26,723)	(62,265)
Student loans	6,578	113	43,283	49,974	51,391
Facilities and equipment	2,455,332	142,038	-	2,597,370	2,349,302
Split interest agreements	-	72,780	41,149	113,929	108,233
Funds held by others, other than perpetual	-	43,771	20,868	64,639	58,935
Contributions receivable, net	-	912,608	180,961	1,093,569	834,462
Long-term accruals	(539,326)	-	-	(539,326)	(517,853)
Total net assets	\$ 3,014,917	\$ 3,494,173	\$ 2,734,290	\$ 9,243,380	\$ 8,094,433

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. Long-term accruals represent longer term liabilities including the unfunded amount of pension and postretirement benefits, vacation accruals, conditional asset retirement obligations for asbestos remediation, and fair value adjustment on interest rate swaps.

B. Endowment

The University endowment net assets at June 30 were held in support of the following purposes:

SUMMARY OF ENDOWMENT PURPOSE

	2014	2013
Academic programs and research	\$ 1,608,989	\$ 1,412,742
Financial aid	1,515,017	1,341,297
Professorships	1,174,536	1,026,741
General purpose and other	1,222,476	1,170,870
Facilities support	130,212	117,502
CU Foundation	93,639	71,063
Total true endowment and FFE, end of year	\$ 5,744,869	\$ 5,140,215

Of the endowment assets held at the University, 97 percent and 96 percent were invested in the LTIP at June 30, 2014 and 2013, respectively. 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 five 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. Participation in the LTIP using unrestricted funds requires a minimum investment of one hundred thousand dollars and a commitment of at least five years.

At June 30, 2014, 250 of 6,589 true endowment funds invested in the LTIP had a total historic dollar value of \$127,297 and a fair value of \$117,572, resulting in these endowments being underwater by a total of \$9,725. The University holds significant 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	2014 Total	2013 Total
True endowment and FFE, beginning of year	\$ 1,272,539	\$ 1,717,443	\$ 2,150,233	\$ 5,140,215	\$ 4,799,314
Investment return					
Net investment income	13,177	31,521	-	44,698	70,471
Net realized and unrealized gain/(loss)	236,686	507,264	3,081	747,031	447,255
Total investment return	\$ 249,863	\$ 538,785	\$ 3,081	\$ 791,729	\$ 517,726
New gifts	622	35,100	126,856	162,578	142,699
Amounts appropriated for expenditure/reinvestment	(78,119)	(203,971)	4,590	(277,500)	(251,611)
Other changes and reclassifications	(37,490)	(52,853)	18,190	(72,153)	(67,913)
Total true endowment and FFE, end of year	\$ 1,407,415	\$ 2,034,504	\$ 2,302,950	\$ 5,744,869	\$ 5,140,215

12. MEDICAL MALPRACTICE INSURANCE

The University, along with other institutions of higher education that have medical practices, obtains medical malpractice insurance through MCIC Vermont (MCIC). MCIC is a reciprocal risk retention group that provides medical malpractice insurance coverage and risk management services to its subscribers. All of WCMC's faculty physicians are enrolled in MCIC. The MCIC liability is calculated annually on an actuarial basis.

WCMC has recorded medical malpractice liabilities of \$120,318 and \$122,389 at June 30, 2014 and 2013, respectively, as other liabilities in the consolidated statement of financial position. In addition, WCMC maintains a reinsurance program with MCIC with anticipated recoveries of \$78,222 and \$79,301, respectively, recorded as accounts receivable (Note 2A).

13. 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.

14. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 16, 2014, the date on which the consolidated financial statements were issued and determined no material impact on the University's consolidated financial statements.

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with the Dairy Plant aglow.

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