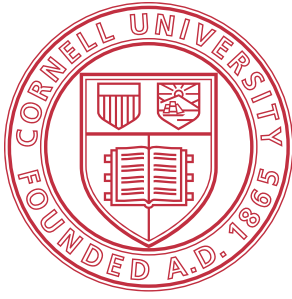


# 2015-2016 FINANCIAL REPORT



Cornell University





# Cornell University 2015-2016 Financial Report

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The audited Financial Report is available online at: <http://www.dfa.cornell.edu/about-us/reports>



## CORNELL UNIVERSITY HIGHLIGHTS

	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
<b>Fall enrollment (excluding in absentia)</b>			
Undergraduate	14,315	14,453	14,393
Graduate	5,879	5,757	5,650
Professional	<u>2,746</u>	<u>2,663</u>	<u>2,594</u>
Total fall enrollment	<u><u>22,940</u></u>	<u><u>22,873</u></u>	<u><u>22,637</u></u>
<b>Degrees granted</b>			
Baccalaureate degrees	3,758	3,674	3,570
Masters degrees	2,598	2,502	2,407
Ph.D. degrees	555	555	575
Other doctoral degrees (J.D., M.D., D.V.M.)	<u>386</u>	<u>374</u>	<u>384</u>
Total degrees granted	<u><u>7,297</u></u>	<u><u>7,105</u></u>	<u><u>6,936</u></u>
<b>Tuition rates</b>			
Endowed Ithaca	\$ 48,880	\$ 47,060	\$ 45,130
Contract Colleges			
Resident	\$ 32,740	\$ 30,910	\$ 28,990
Nonresident	\$ 48,880	\$ 47,050	\$ 45,130
Medical Campus	\$ 50,950	\$ 49,500	\$ 48,500
Business	\$ 59,532	\$ 58,192	\$ 55,948
Law	\$ 59,950	\$ 59,360	\$ 57,270
Veterinary Medicine	\$ 32,750	\$ 31,800	\$ 30,725
Volumes in library (in thousands)	8,087	8,046	8,025
<b>Academic workforce</b>			
Full-time employees			
Faculty	3,842	3,705	3,628
Nonfaculty	882	888	881
Part-time employees			
Faculty	285	281	288
Nonfaculty	<u>192</u>	<u>145</u>	<u>152</u>
Total academic workforce	<u><u>5,201</u></u>	<u><u>5,019</u></u>	<u><u>4,949</u></u>
<b>Nonacademic workforce</b>			
Full-time employees	10,866	10,475	10,166
Part-time employees	<u>575</u>	<u>579</u>	<u>588</u>
Total nonacademic workforce	<u><u>11,441</u></u>	<u><u>11,054</u></u>	<u><u>10,754</u></u>
<b>University Endowment</b>			
Market value of total university endowment (in millions)	\$ 5,757.7	\$ 6,037.5	\$ 5,889.9
Unit value of Long Term Investment Pool	\$ 52.32	\$ 57.31	\$ 58.45
Gifts received, excluding pledges (in millions)	\$ 512.0	\$ 540.3	\$ 484.2
New York State appropriations through SUNY (in millions)	\$ 131.5	\$ 131.4	\$ 131.2
Medical Physician Organization fees (in millions)	\$ 1,050.9	\$ 927.6	\$ 827.4
<b>Sponsored research volume (in millions)</b>			
Direct expenditures	\$ 496.3	\$ 497.4	\$ 470.5
Indirect-cost recovery	\$ 138.0	\$ 138.6	\$ 130.5
<b>Selected land, buildings, and equipment items &amp; related debt (in millions)</b>			
Additions to land, buildings, and equipment	\$ 471.4	\$ 335.8 *	\$ 389.9 *
Cost of land, buildings, and equipment	\$ 7,115.0	\$ 6,662.0	\$ 6,361.1
Outstanding bonds, mortgages, and notes payable	\$ 1,515.1	\$ 1,542.8	\$ 1,570.4 *

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

## MESSAGE FROM THE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

This past year was like no other year in Cornell's history. Our first female president, Elizabeth Garrett, was welcomed on July 1, 2015 as the university's thirteenth president. Nine months later we mourned her loss, when she passed away after a courageous battle with cancer. Cornell's tenth president, Hunter Rawlings, was named interim president. As Interim President Rawlings stepped in, we strengthened our resolve to continue the strategies and vision put in place during President Garrett's short tenure.

There continues to be an extraordinary demand for a Cornell education. Almost 45,000 prospective students applied for approximately 3,342 undergraduate places in the Class of 2020. Cornell remains very selective, with a 14 percent acceptance rate for fall 2016 freshman applicants, compared with 18 percent just five years ago, and maintains a steady matriculation yield rate, which has consistently averaged more than 50 percent. Cornell's geographical profile remains diverse and global, with over 12 percent of its undergraduate students from outside the United States, 29 percent from New York as part of the university's commitment to its land-grant mission, and the remaining 59 percent from states other than New York.

University operating revenues have grown by 29 percent over the past five years, from \$3.0 billion to \$3.8 billion. The largest growth area has been the Medical Physician Organization at Weill Cornell Medicine, which now makes up over 28 percent of the university's total operating revenue (compared to under 20 percent in fiscal year 2011).

Cornell remains a leader in research, critical in attracting outstanding faculty members and enhancing the educational experience for both undergraduate and graduate students. The university generated over \$587 million in grant and contract revenues in fiscal year 2016, comprising over 16 percent of the university's total operating revenues.

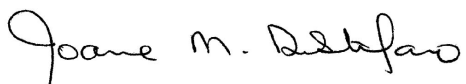
Cornell continued its history of strong fundraising in fiscal year 2016. The "Cornell Now" campaign concluded in December 2015 with over \$6.3 billion, making Cornell just the third institution of higher education to reach that level of philanthropic support in a multi-year, comprehensive campaign. In addition, cash gifts were \$609 million, the highest in Cornell history.

Operating costs at Cornell are less dependent on endowment payout than other highly endowed institutions, mostly due to the university's revenue diversity. Less than 9 percent of the university's operating costs was funded from its endowment in fiscal year 2016. University operating expenses increased over \$230 million, or 6.3 percent, from \$3.7 billion to \$3.9 billion this past year. This is mainly the result of the 13 percent increase in the Medical Physician Organization over the same period. The university experienced an operating loss of \$84 million this year. The loss is partially from lower gifts as a result of the campaign's end.

As of June 30, 2016, Cornell had \$1.5 billion of bonds and notes outstanding, including \$137 million of outstanding commercial paper and \$250 million in taxable bonds issued in 2009. The university has a notional amount of \$796 million in interest rate swaps, whose fair value is determined by an external swap consultant. Change in valuation between June 30, 2015 and June 30, 2016 increased the mark-to-market liability by \$90 million due to lower interest rates over this period.

While there were many fiscal positives this past year, the university also faced its fiscal challenges. Our operating margins declined, investment return was negative 3.3%, post-retirement benefit liability increased by \$106 million, and our swap liability increased by \$90 million, as mentioned above. Actions are being taken to address each of the financial challenges.

We are fairly certain that the higher education landscape will continue to present new financial challenges; as they appear we will face them head-on, as "One Cornell," focusing on mission-critical priorities set forth by the late President Garrett and Interim President Rawlings. A careful and decisive approach to the future will prepare us well as we search for our next president. With this in mind, I am confident that our cherished institution will continue to forge a path as a leader among its peers, and remain a preeminent research university with a global impact.



Joanne M. DeStefano  
Executive Vice President and Chief Financial Officer

### OVERVIEW

The University ended the fiscal year with over \$9.0 billion in net assets, down from \$9.5 billion the previous year. Total unrestricted net assets are \$2.7 billion. Total assets decreased by \$245.4 million while total liabilities increased by \$197.0 million. The change in net assets from operating activities decreased from the prior year, with an \$84.4 million net operating loss for the year, and the change in net assets from

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**“Total unrestricted net assets are \$2.7 billion.”**

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non-operating activities swung from an increase of \$263.0 million in the prior year to a decrease of \$358.0 million in the current year. Market conditions were responsible for a large part of the change in net assets.

### NEW STANDARDS, EMERGING ISSUES, AND INITIATIVES

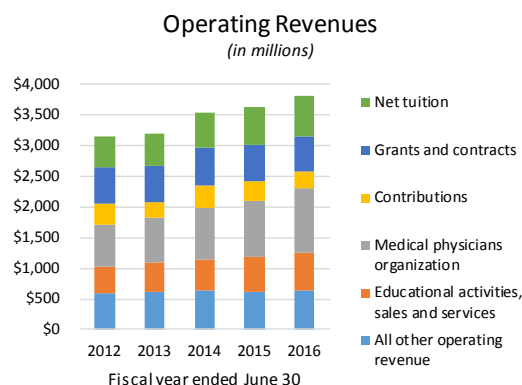
The Financial Accounting Standards Board (FASB), which establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations, continues to be very active. Since January of 2014, the FASB has issued fifty new updates, some of which could have significant changes for accounting and reporting. The University monitors closely the FASB’s Accounting Standard Updates (ASUs), and evaluates each for relevance and impact.

Three recent updates are of particular importance to the University. ASU 2014-09—Revenue from Contracts with Customers (Topic 606) is intended to provide a comprehensive, industry-neutral revenue recognition model to increase financial statement comparability across companies and industries, and significantly reduce the complexity inherent in today’s revenue recognition guidance. ASU 2016-02—Leases (Topic 842) addresses the criticism that current accounting standards do not adequately inform financial statement users of the full nature and implications of leasing transactions. The new standard will require operating leases to be recognized as right-to-use assets and lease liabilities on the balance sheet. Finally, ASU 2016-14—Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements for Not-for-Profit Entities* is intended to improve the information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. The revenue recognition and not-for-profit reporting standards are effective for fiscal year 2019, and the new lease standard in fiscal year 2020. More information about these and other recent standards impacting the University can be found in Note 1P.

### FINANCIAL YEAR IN REVIEW

#### Operating Revenues

For fiscal year 2016, operating expenses exceeded operating revenue by 2.2 percent, resulting in an \$84.4 million net operating loss. The Medical Physician Organization continues to grow, with revenues up 13.3 percent, reaching almost \$1.1 billion, driven by the maturation of the Lower Manhattan practices and network physicians. All other operating revenue, excluding the Medical Physician Organization, had a net increase of \$49.3 million, while operating expenses increased by \$232.0 million, or 6.3 percent.



In fiscal year 2016, gross tuition revenue increased by 3.7 percent as a result of Board-authorized tuition increases and a slight increase, 67 students, in overall enrollment, 22,940 in fiscal year 2016. The scholarship allowance represents the amount of institutional grant aid for the cost of attendance; this allowance remained relatively consistent with the prior year. Additionally, the University provides financial aid to students to defray the cost of living expenses; this aid is reported in supplies and general expense and is disclosed in Note 10.

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**“Operating revenues at the Medical Physician Organization increased 13.3 percent, reaching almost \$1.1 billion.”**

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Combined direct and indirect revenues from grants and contracts decreased slightly, by 1.4 percent.

Contribution revenue for operations was \$266.6 million, or a 16.9 percent decrease from last year. The University’s Cornell Now capital campaign, which included extraordinary support for Cornell Tech and Weill Cornell Medicine (WCM), officially came to a close on December 31, 2015, resulting in a decrease in operating and non-operating contribution revenue during the current year. We are grateful to our donors for their continued support.

Distributed investment return increased by 4.3 percent 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 the pooled endowment, and income and realized gains and losses on investments from working capital and non-pooled endowments and similar funds.

Revenue for educational activities and other sales and services increased by \$58.7 million, or 10.4 percent. Of this increase, \$15.9 million resulted from additional support from New York Presbyterian Hospital, \$10.6 million from increased activity at the Qatar medical college, and \$10.0 million from the Ithaca campus student health plan and fees.

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 2016, this amount was \$230.4 million.

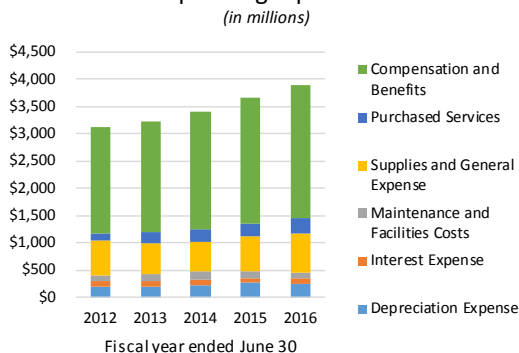
### Operating Expenses

Expenses for compensation and benefits are 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 62.9 percent of overall operating expenses. This expense increased by \$152.7 million, or 6.6 percent. Beyond the overall salary improvement plan, averaging 2.3 percent in Ithaca, compensation at WCM was a major component of this increase due to increased headcount related to strategic initiatives and expansion of the Medical Physician Organization.

Supplies and general expense increased in fiscal year 2016 by \$79.3 million, or 12.7 percent, due in large part to the expansion of the Medical Physician Organization.

Other operating expenses, combined, remained relatively flat. The University is committed to managing overall costs without jeopardizing its ability to carry out its missions and strategic initiatives and continues to focus efforts on streamlining, efficiencies, and reducing administrative burden.

### Operating Expenses



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

New York State has provided significant appropriations, over \$228.7 million in the past five years, to allow the University to build and improve the facilities for the contract colleges. The current year revenues increased by \$13.3 million from the prior year, primarily related to classroom expansion at the College of Veterinary Science.

Grants and contracts for capital acquisitions increased by \$28.2 million in the current year, as funding received from the New York City Economic Development Corporation is used for the construction of the new campus on Roosevelt Island. Non-operating contributions for buildings, trusts, and permanent endowment were \$245.7 million, resulting in a 22.4 percent decrease from the prior year. As previously mentioned, the University has concluded its successful Cornell Now campaign.

The sharp decrease in other non-operating income is the result of the sale of a portion of the Belfer Research Building in New York City in the prior year.

### 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)



The overall non-operating loss of \$358.0 million for fiscal year 2016 is driven by the remaining income and expense items that are significantly affected by market factors. The \$467.1 million loss reflected as investment return in the non-operating section is net of the amount distributed of \$327.9 million reflected in the operating section of the statement of activities. The total operating and non-operating return for fiscal year 2016 is a \$139.2 million loss, which includes \$427.4 million of unrealized losses. The investment return for the long term investment pool was -3.3 percent for the year, as compared with 3.4 percent in the prior year. Over the last three years, the annualized return of the long-term investment pool is 5.0 percent.

The \$123.3 million loss, 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. The actuarial losses were driven primarily by decreases in the discount rates used and by unfavorable actual vs. expected investment returns.

#### Statement of Financial Position

The University's overall net assets decreased by \$442.4 million, or 4.7 percent. Despite this decline in the current year, the statement of financial position, or balance sheet, remains strong, with over of \$9.0 billion in net assets, including \$2.7 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 2016, cash was \$32.3 million higher than the prior year, which represents an increase of 21.6 percent.

Receivables from all sources, more fully disclosed in Note 2 of the consolidated financial statements, decreased by \$114.1 million, or 7.2 percent. Of the decrease, \$107.5 million was the result of payments received on pledges made during the recently concluded Cornell Now campaign.

Investments as of June 30, 2016 were \$6.6 billion, a 5.7 percent decrease from the prior year. The decrease in the fair value of University assets is the result of unrealized net losses as of the end of this fiscal year, partially offset by a 3.2 percent increase in participation in the LTIP. 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 5.8 percent increase in land, buildings, and equipment in fiscal year 2016 consists of projects placed in service as well as construction in progress (CIP). During the fiscal year, the University placed into service the new humanities building, Klarman Hall, the newly constructed wing of Gannett Health Services, and new classroom facilities for the College of Veterinary Medicine. CIP at fiscal year-end includes several major projects, such as Cornell Tech and the Upson Hall renovation.

#### Liabilities

In total, accounts payable and accrued expenses increased by \$119.6 million for the year. Included within that change is \$90.0 million related to an increase in the interest rate swap liabilities as a result of decreased interest rates.

Of the deferred benefits of \$656.4 million, \$445.6 million relates to pension and other postretirement benefits, which increased 46.6 percent over the prior year due to factors described above. These liabilities are further disclosed in Note 6.

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. The decrease of \$42.5 million was the result of a combination of withdrawals amounting to \$25.7 million, and a decrease in market value.

2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
\$ 4,180.4	\$ 5,197.5	\$ 5,378.1	\$ 3,794.3	\$ 4,223.2	\$ 4,921.8	\$ 4,786.9	\$ 5,188.6	\$ 5,896.3	\$ 5,973.7
128.7	236.8	190.5	573.9	210.6	155.3	287.4	349.7	378.2	351.7
(125.1)	(130.1)	(340.9)	(578.7)	(286.9)	(233.0)	(354.1)	(422.2)	(440.8)	(442.2)
1013.5	73.9	(1433.4)	433.7	774.9	(57.2)	468.4	780.2	140.0	(239.5)
<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>\$ 5,973.7</u>	<u>\$ 5,643.7</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>	<u>\$ 57.31</u>	<u>\$ 52.46</u>

The bonds and notes payable decline of \$27.7 million represents scheduled amortization of principal payments during the year. The decrease realized, by the refinancing of the Series 2006A bond with a new Series 2016A bond issuance, was offset by additional debt incurred by one of the University's subsidiaries for the construction of the residential facility at Cornell Tech.

#### SUMMARY

The University continues to manage its endowment to support its mission in the long term, explore opportunities to increase operating revenues, and manage its expenses. Sponsored research through grants and contracts remains strong, and the Medical Physician Organization continues to expand its presence in the New York metropolitan area. In the coming year, the University will continue its focus on improving efficiencies and reducing administrative burden while enhancing the academic experience.

A handwritten signature in black ink, appearing to read "K. Yeoh", with a long horizontal flourish extending to the right.

C. Kim Yeoh  
Interim University Controller

## MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

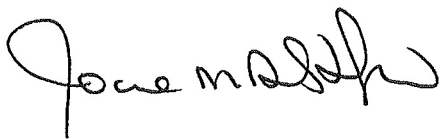
The management of Cornell University is responsible for the preparation, integrity and fair presentation of the consolidated financial statements that have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.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



Joanne M. DeStefano  
Executive Vice President  
and Chief Financial Officer



C. Kim Yeoh  
Interim University Controller

## Report of Independent Auditors

To The Board of Trustees of Cornell University

We have audited the accompanying consolidated financial statements of Cornell University (the “University”), which comprise the consolidated balance sheets as of June 30, 2016 and 2015 and the related consolidated statements of activities for the year ended June 30, 2016 and of cash flows for the years ended June 30, 2016 and 2015.

### Management’s Responsibility for the Consolidated 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.

### Auditors’ 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, 2016 and 2015, and the changes in its net assets for the year ended June 30, 2016 and its cash flows for the years ended June 30, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

We have previously audited the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended (not presented herein), and in our report dated October 22, 2015, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2015 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



October 27, 2016

PricewaterhouseCoopers LLP, 1100 Bausch & Lomb Place, Rochester, NY 14604-2705

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**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

AS OF JUNE 30, 2016 AND JUNE 30, 2015 (in thousands)

	2016	2015
<b>Assets</b>		
1 Cash and cash equivalents	\$ 182,096	\$ 149,753
2 Accounts receivable, net (note 2-A)	404,061	414,607
3 Contributions receivable, net (note 2-B)	986,322	1,093,843
4 Prepaid expenses and other assets	151,031	142,420
5 Student loans receivable, net (note 2-C)	80,956	76,987
6 Investments (note 3)	6,587,175	6,986,920
7 Land, buildings, and equipment, net (note 4)	4,009,285	3,788,376
8 Funds held in trust by others (note 5)	124,960	118,381
9 Total assets	<u>\$ 12,525,886</u>	<u>\$ 12,771,287</u>
<b>Liabilities</b>		
10 Accounts payable and accrued expenses	\$ 713,414	\$ 593,797
11 Deferred revenue and other liabilities	262,694	237,289
12 Obligations under split interest agreements (note 5)	135,444	139,857
13 Deferred benefits (note 6)	656,410	527,574
14 Funds held for others (note 7)	153,065	195,533
15 Bonds and notes payable (note 8)	1,515,135	1,542,834
16 Government advances for student loans	50,730	52,992
17 Total liabilities	<u>3,486,892</u>	<u>3,289,876</u>
<b>Net assets (note 11)</b>		
18 Unrestricted	2,698,090	2,970,754
19 Temporarily restricted	3,204,004	3,577,319
20 Permanently restricted	3,136,900	2,933,338
21 Total net assets	<u>9,038,994</u>	<u>9,481,411</u>
22 Total liabilities and net assets	<u>\$ 12,525,886</u>	<u>\$ 12,771,287</u>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR-ENDED JUNE 30, 2016 (in thousands)**

(WITH SUMMARIZED INFORMATION FOR THE YEAR-ENDED JUNE 30, 2015)

	Unrestricted	Temporarily Restricted
<b>Operating revenues</b>		
1 Tuition and fees	\$ 998,942	\$ -
2 Scholarship allowance	(352,179)	-
3 Net tuition and fees	646,763	-
4 State and federal appropriations	149,138	-
5 Grants, contracts and similar agreements		
6 Direct	444,656	-
7 Indirect cost recoveries	142,010	-
8 Contributions	115,311	151,315
9 Investment return, distributed	197,725	130,181
10 Medical Physician Organization	1,050,886	-
11 Auxiliary enterprises	160,853	-
12 Educational activities and other sales and services	620,376	-
13 Net assets released from restrictions	230,362	(230,362)
14 Total operating revenues	<u>3,758,080</u>	<u>51,134</u>
<b>Operating expenses (note 10)</b>		
15 Compensation and benefits	2,450,545	-
16 Purchased services	274,626	-
17 Supplies and general	704,638	-
18 Maintenance and facilities costs	122,266	-
19 Interest expense (note 8)	82,870	-
20 Depreciation	258,698	-
21 Total operating expenses	<u>3,893,643</u>	<u>-</u>
22 Change in net assets from operating activities	<u>(135,563)</u>	<u>51,134</u>
<b>Nonoperating revenues and (expenses)</b>		
23 State appropriations for capital acquisitions	41,604	-
24 Grants, contracts and similar agreements for capital acquisitions	39,592	-
25 Contributions for capital acquisitions, trusts and endowments	16,919	87,770
26 Investment return, net of amount distributed	(192,927)	(303,202)
27 Change in value of split interest agreements	369	(4,378)
28 Pension and postretirement changes other than net periodic costs	(123,342)	-
29 Change in value of interest rate swaps	(89,965)	-
30 Other	(65)	-
31 Net asset released for capital acquisitions and reclassifications	170,714	(204,639)
32 Change in net assets from nonoperating activities	<u>(137,101)</u>	<u>(424,449)</u>
33 Change in net assets	(272,664)	(373,315)
34 Net assets, beginning of the year	2,970,754	3,577,319
35 Net assets, end of the year	<u>\$ 2,698,090</u>	<u>\$ 3,204,004</u>

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

Permanently Restricted	2016 Total	2015 Total	
\$ -	\$ 998,942	\$ 963,722	1
-	(352,179)	(352,668)	2
-	646,763	611,054	3
-	149,138	148,712	4
-	444,656	461,329	5
-	142,010	133,439	6
-	266,626	320,956	7
-	327,906	314,342	8
-	1,050,886	927,579	9
-	160,853	157,523	10
-	620,376	561,697	11
-	-	-	12
-	-	-	13
-	3,809,214	3,636,631	14
-	2,450,545	2,297,837	15
-	274,626	255,159	16
-	704,638	625,337	17
-	122,266	134,069	18
-	82,870	89,447	19
-	258,698	259,776	20
-	3,893,643	3,661,625	21
-	(84,429)	(24,994)	22
-	41,604	28,279	23
-	39,592	11,391	24
140,980	245,669	316,610	25
29,044	(467,085)	(66,983)	26
(227)	(4,236)	(12,050)	27
-	(123,342)	(47,423)	28
-	(89,965)	(16,419)	29
(160)	(225)	49,620	30
33,925	-	-	31
203,562	(357,988)	263,025	32
203,562	(442,417)	238,031	33
2,933,338	9,481,411	9,243,380	34
\$ 3,136,900	\$ 9,038,994	\$ 9,481,411	35

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS-ENDED JUNE 30, 2016 AND JUNE 30, 2015 (in thousands)

	2016	2015
<b>Cash flows from operating activities</b>		
1 Change in net assets	\$ (442,417)	\$ 238,031
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	(293,552)	(343,906)
3 Depreciation	258,698	259,776
4 Net realized and unrealized (gain)/loss on investments	202,286	(146,283)
5 Pension and postretirement changes other than net periodic costs	123,342	47,423
6 Change in value of interest rate swaps	89,965	16,419
7 Loss on disposals of land, building, and equipment	4,181	2,285
8 Other adjustments	(22,102)	(2,348)
Change in assets and liabilities		
9 Accounts receivable, net	10,546	22,153
10 Contributions receivable, net	107,521	(274)
11 Prepaid expenses and other assets	(2,618)	(45,475)
12 Accounts payable and accrued expenses	39,547	16,447
13 Deferred revenue and other liabilities	25,405	(47,577)
14 Obligations under split interest agreements	(10,992)	9,464
15 Deferred benefits	5,494	3,700
16 Net cash provided/(used) by operating activities	<u>95,304</u>	<u>29,835</u>
<b>Cash flows from investing activities</b>		
17 Proceeds from the sale and maturities of investments	9,900,735	6,643,108
18 Purchase of investments	(9,723,130)	(6,630,290)
19 Acquisition of land, buildings, and equipment (net)	(471,367)	(335,823)
20 Student loans granted	(17,273)	(16,109)
21 Student loans repaid	13,090	11,524
22 Change in funds held for others, net of unrealized (gain)/loss on investments	(28,102)	(22,427)
23 Net cash used by investing activities	<u>(326,047)</u>	<u>(350,017)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions for capital acquisitions, trusts and endowments		
24 Investment in endowments	207,687	251,006
25 Investment in physical plant	81,219	87,702
26 Investment subject to living trust agreements	4,646	5,198
27 Principal payments of bonds and notes payable	(181,767)	(42,951)
28 Proceeds from issuance of bonds and notes payable	154,068	15,390
29 Bond issuance costs incurred	(505)	-
30 Government advances for student loans	(2,262)	717
31 Net cash provided by financing activities	<u>263,086</u>	<u>317,062</u>
32 Net change in cash and cash equivalents	32,343	(3,120)
33 Cash and cash equivalents, beginning of year	149,753	152,873
34 Cash and cash equivalents, end of year	<u>\$ 182,096</u>	<u>\$ 149,753</u>
<b>Supplemental disclosure of cash flow information</b>		
35 Cash paid for interest	\$ 93,900	\$ 93,759
36 Increase/(decrease) in construction payables, non-cash activity	\$ 9,895	\$ (1,951)
37 Gifts-in-kind	\$ 16,562	\$ 2,749

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 learning, discovery, and engagement. Cornell is a private university, the federal land-grant institution of New York State, and a member of the Ivy League. Cornell administers four contract colleges which are also units of the State University of New York. It has been described as the first truly American university because of its founders' revolutionary 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 22,900 students, nearly 3,700 faculty, and about 274,000 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 and a physician organization as part of Weill Cornell Medicine), and Doha, Qatar (the Weill Cornell Medical College in Qatar). Also in New York City, the Cornell Tech campus offers graduate programs in applied sciences, including two programs offered jointly with the Technion - Israel Institute of Technology under the auspices of the Joan and Irwin Jacobs Technion-Cornell Institute (the Jacobs Institute).

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 Medicine (WCM) 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 WCM, 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 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 manages counterparty risk by limiting swap exposure for each counterparty and monitoring the financial health of swap counterparties, and has structured swap documents to limit maximum loss in the event of counterparty default.

#### **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

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 4.4 percent to 5.9 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 endowment payout and an administrative fee that supports the investment and stewardship costs of the University endowment.

The New York Prudent Management of Institutional Funds Act (NYPMIFA) established a 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 WCM.

#### 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 contractual allowances, 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

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09—Revenue from Contracts with Customers (Topic 606) at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. Qualitative and quantitative disclosures will be required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August of 2015, FASB issued ASU 2015-14—Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which makes ASU 2014-09 effective for the fiscal year ending June 30, 2019. The University continues to evaluate the impact this will have on the consolidated financial statements, and is closely monitoring changes deliberated by the FASB related to its implementation.

In April 2015, the FASB issued ASU 2015-03—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The University is evaluating the impact this will have on the consolidated financial statements for the fiscal year ending June 30, 2017, the first year in which the standard is effective.

In April 2015, the FASB also issued ASU 2015-05—Intangibles - Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement which provides guidance to help entities evaluate whether a cloud computing arrangement includes a software license. The University is evaluating the impact of the new guidance which is effective in the fiscal year ending June 30, 2017.

In February 2016, the FASB issued ASU 2016-02—Leases (Topic 842) which provides accounting guidance for leases from both the lessor's and lessee's perspective. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases; however, the University will evaluate other impacts of the new guidance. The new standard will be effective in the fiscal year ending June 30, 2020.

In August 2016, the FASB issued ASU 2016-14—Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities to improve the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The significant changes under the new guidance include the reduction of net asset classifications to two categories based on the existence or absence of donor restrictions, and additional disclosure requirements related to board designation of net assets, and on the liquidity and availability of the entity's financial assets. ASU 2016-14 is effective for the fiscal year ending June 30, 2019; the University is currently evaluating both the impact on the consolidated financial statements and the timing of its adoption.

### Q. Reclassifications

The University reclassified certain lines in the consolidated statement of cash flows to conform to the current year presentation. These changes impacted the net realized and unrealized gain/loss on investments, change in funds held for others, and cash paid for interest.

### 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:

**SUMMARY OF ACCOUNTS RECEIVABLE**

	<b>2016</b>	<b>2015</b>
Grants and contracts	\$ 85,386	\$ 118,178
New York Presbyterian Hospital and other affiliates	44,603	41,637
Patients (net of contractual allowances)	131,669	119,077
Reinsurance receivable	102,891	95,424
Student accounts	7,200	11,636
Other	68,224	54,782
Gross accounts receivable	\$ 439,973	\$ 440,734
Less: allowance for doubtful accounts	(35,912)	(26,127)
Net accounts receivable	\$ 404,061	\$ 414,607

The patient accounts receivable for medical services was comprised of the following at June 30, 2016 and 2015, respectively: commercial third parties 64.4 percent and 59.5 percent; federal/state government 15.3 percent and 19.1 percent; and patients 20.2 percent and 21.5 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. The methodology for estimating uncollectible amounts is based on an analysis of the historical collectability of contributions receivable. Contributions are expected to be realized as follows:

**SUMMARY OF CONTRIBUTIONS RECEIVABLE**

	<b>2016</b>	<b>2015</b>
Less than one year	\$ 366,885	\$ 356,473
Between one and five years	561,661	703,052
More than five years	155,652	164,546
Gross contributions receivable	\$ 1,084,198	\$ 1,224,071
Less: unamortized discount	(67,371)	(84,658)
Less: allowance for uncollectible amounts	(30,505)	(45,570)
Net contributions receivable	\$ 986,322	\$ 1,093,843

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

**EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE**

	<b>2016</b>	<b>2015</b>
Program support	\$ 521,273	\$ 563,993
Capital purposes	289,949	351,558
Long-term support	175,100	178,292
Net contributions receivable	\$ 986,322	\$ 1,093,843

At June 30, 2016, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions and conditional promises with significant requirements, were \$507,794.

### 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, 2016, the average default rate approximates 11.3 percent, with a rate of approximately 2.8 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.

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

	2016			2015
	Receivable	Allowance	Net receivable	Net receivable
Federal revolving loans	\$ 54,074	\$ (2,360)	\$ 51,714	\$ 47,787
Institutional loans	31,743	(2,501)	29,242	29,200
Total student loans receivable	\$ 85,817	\$ (4,861)	\$ 80,956	\$ 76,987

#### CHANGE IN STUDENT LOAN ALLOWANCE

	2016			2015
	Federal revolving	Institutional	Total allowance	Total allowance
Allowance at beginning of year	\$ (2,311)	\$ (2,336)	\$ (4,647)	\$ (4,246)
Current year provisions	(49)	83	34	(611)
Current year write-offs	-	(248)	(248)	210
Allowance at end of year	\$ (2,360)	\$ (2,501)	\$ (4,861)	\$ (4,647)

## 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

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

INVESTMENT POOLS/CATEGORIES AT FAIR VALUE

	2016	2015
Long-term investments (LTI)		
Long-term investment pool (LTIP)	\$ 5,629,008	\$ 5,973,740
Other LTI	343,333	315,583
Total LTI	<u>\$ 5,972,341</u>	<u>\$ 6,289,323</u>
Intermediate-term	277,263	346,714
Separately invested and other assets	<u>337,571</u>	<u>350,883</u>
Total investments	<u>\$ 6,587,175</u>	<u>\$ 6,986,920</u>

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

	2016	2015
Interest and dividends, net of investment fees	\$ 77,473	\$ 95,948
Net realized gain/(loss)	210,733	301,502
Net unrealized gain/(loss)	<u>(427,385)</u>	<u>(150,091)</u>
Total investment return	<u>\$ (139,179)</u>	<u>\$ 247,359</u>

**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	Net asset value	2016 Total	2015 Total
Cash and cash equivalents	\$ 291,504	\$ 32,262	\$ -	\$ -	\$ 323,766	\$ 602,117
Derivatives	-	(3,527)	-	-	(3,527)	(3,242)
Equity						
Domestic equity	415,478	58,729	3,416	168,990	646,613	698,152
Foreign equity	599,478	22,957	17,857	245,845	886,137	947,585
Hedged equity	-	-	1,949	627,506	629,455	724,531
Private equity	-	-	42,058	1,131,930	1,173,988	1,209,758
Fixed income						
Asset backed fixed income	-	28,598	1,006	-	29,604	22,073
Corporate bonds	-	446,358	127	-	446,485	408,917
Equity partnership	-	77	-	478,440	478,517	423,011
International	23,404	86,951	-	-	110,355	154,417
Municipals	-	12,998	-	-	12,998	30,285
Mutual funds (non-equity)	99	22,504	-	-	22,603	49,921
Preferred/convertible	-	23,970	4,959	-	28,929	26,648
Other fixed income	-	5,737	-	-	5,737	6,575
US government	65,622	90,533	-	-	156,155	125,014
Marketable alternatives	-	25	-	722,054	722,079	654,004
Real assets	-	-	27,383	909,113	936,496	900,550
Receivable for investments sold	39,336	-	-	-	39,336	21,674
Payable for investments purchased	(83,011)	-	-	-	(83,011)	(38,573)
Other	-	-	24,460	-	24,460	23,503
Total investments	<u>\$ 1,351,910</u>	<u>\$ 828,172</u>	<u>\$ 123,215</u>	<u>\$ 4,283,878</u>	<u>\$ 6,587,175</u>	<u>\$ 6,986,920</u>

Securities not included in investment portfolio

Cash and cash equivalents	\$ 84,714	\$ -	\$ -	\$ -	\$ 84,714	\$ 56,168
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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 and foreign equities, as well as 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 real estate, oil and mineral rights, limited partnerships, and equity positions in private companies.

### C. Investments Using Net Asset Value

The net asset value (NAV) column above represents the University's ownership interest in certain alternative investments. 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. 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 general partner will take 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.

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(dollars in thousands)

The following tables provide additional information about alternative investments measured at NAV:

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	\$ 407,758		\$ 289,298	
	Growth	288,969		242,991	
	Venture capital	435,203		155,522	
	Total private equity	\$ 1,131,930	1 to 10 years	\$ 687,811	1 to 10 years
Real assets	Real estate	521,211		340,849	
	Natural resource	387,902		374,239	
	Total real assets	\$ 909,113	1 to 10 years	\$ 715,088	1 to 10 years
Fixed income	Distressed	207,423		113,845	
	Leveraged loans	61,400		33,019	
	Mezzanine	92,036		131,015	
	Multi-strategy	117,581		175,851	
	Total fixed income	\$ 478,440	1 to 10 years	\$ 453,730	1 to 10 years
Foreign equity	Emerging markets	73,786			
	Global equity	172,059			
	Total foreign equity	\$ 245,845			
Hedged equity	Global equity long/short	335,669			
	U.S. equity long/short	291,837			
	Total hedged equity	\$ 627,506			
Marketable alternatives	Event driven	135,243			
	Global macro	586,811			
	Total marketable alternatives	\$ 722,054			
Domestic equity	Indexed	168,990			
	Total domestic equity	\$ 168,990			
Total for alternative investments using NAV		\$ 4,283,878		\$ 1,856,629	



## 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	50% annual redemption with 90 days notice***	No lock up provisions
Foreign equity	Ranges between monthly redemption with 10 days notice, to rolling 3 year redemption with 90 days notice	No lock up provisions
Hedged equity	Ranges between quarterly redemption with 30 days notice, to 25% per year redemption with 60 days notice	6.48% has remaining lock up provision of 6 months
Marketable alternatives	Ranges between quarterly redemption with 65 days notice, to 33% redemption per year with 90 days notice	5.97% has remaining lock up of 30 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.

\*\*\* 89.6% of NAV is in private equity structure, with no ability to be redeemed. Redemption provisions for the remaining 10.4% are shown above.

## D. Level 3 Investments

The table below presents a summary of Level 3 investment activity. All net realized and unrealized gains/(losses) in the table 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, 2016. There were no significant transfers into or out of Level 3 during the fiscal year ended June 30, 2016.

## SUMMARY OF LEVEL 3 INVESTMENT ACTIVITY

	Fair value at June 30, 2015	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2016
Equity							
Domestic equity	\$ 34,450	\$ 8,006	\$ (5,009)	\$ -	\$ (34,031)	\$ -	\$ 3,416
Foreign equity	22,736	(367)	(1,732)	4,489	(7,269)	-	17,857
Hedged equity	3,055	130	(833)	77	(480)	-	1,949
Private equity	20,895	1,254	1,620	20,253	(1,964)	-	42,058
Fixed income							
Asset backed fixed income	1,076	-	-	-	(70)	-	1,006
Corporate bonds	4,111	-	(144)	-	(3,840)	-	127
Preferred/convertible	5,094	-	143	-	(278)	-	4,959
Other fixed income	111	-	-	-	(111)	-	-
Real assets	22,458	(79)	2,460	2,581	(37)	-	27,383
Other	23,503	(3)	(2,665)	3,625	-	-	24,460
Total level 3 investments	\$ 137,489	\$ 8,941	\$ (6,160)	\$ 31,025	\$ (48,080)	\$ -	\$ 123,215

Level 3 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 or other similar programs, are maintained at or near initial investment amounts due to the nature of the activity.

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(dollars in thousands)

Level 3 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, and oil or mineral rights. 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.

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	\$ 3,416	Start-up valuation		
Foreign equity	17,857	Third-party pricing		
Hedged equity	1,949	Third-party pricing		
Private equity	18,016	Discounted cash flow/market comparable	Discount rate	3.7% - 12.1% (4.7%)
			Discount for lack of marketability	15% - 20% (19.5%)
			Earnings multiple	8.8x
			Revenue multiple	1.9x
	154	Sales comparison approach	Recent transactions	
	1,823	Start-up valuation		
	22,065	Third-party pricing		
Fixed income				
Asset backed fixed	1,006	Discounted cash flow	Discount rate	2.7% - 3.7% (3.4%)
Corporate bonds	127	Third-party pricing		
Preferred/convertible	4,959	Market comparable	Dividend multiple	17.3x - 20.8x (20.1x)
Real assets	11,940	Cap rate valuation model	Capitalization rate	4.5% - 7.0% (5.4%)
	5,552	Discounted cash flow	Discount rate	15%
			Years to maturity	12
	1,784	Sales comparison approach	Recent transactions	
	4,500	Start-up valuation		
	3,607	Third-party pricing		
Other	7,796	Discounted cash flow	Discount rate	1.6% - 5.3% (2.1%)
			Years to maturity	6 - 14 (9)
	737	Start-up valuation		
	15,927	Third-party pricing		
Total Level 3 investments	\$ 123,215			

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.

### E. 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.

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 rate 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, 2016 and 2015, the University had unfunded premium payment commitments of \$5,411 and \$7,595 respectively. The University's premium payment schedule is as follows: \$1,315 for the year ending June 30, 2017; and \$1,024 annually for the years ending June 30, 2018, 2019, 2020 and 2021.

The following tables provide detailed information on the derivatives included in the investment portfolio as of June 30.

#### FAIR VALUE OF DERIVATIVE HOLDINGS IN STATEMENT OF FINANCIAL POSITION

Location	Derivative type	2016			2015		
		Notional amount	# of Contracts	Level 2 fair value	Notional amount	# of Contracts	Level 2 fair value
Investments							
	Foreign currency	\$ -	35	\$ 252	\$ -	66	\$ (583)
	Commodity	-	-	-	-	-	-
	Synthetic	(3,458)	1	(95)	(20,862)	40	(2,123)
	Interest rate	444,703	4	(3,684)	444,703	4	(536)
	Total fair value	\$ 441,245	40	\$ (3,527)	\$ 423,841	110	\$ (3,242)

#### EFFECT OF DERIVATIVE HOLDINGS ON STATEMENT OF ACTIVITIES

Location	Derivative Type	2016	2015
		Unrealized gain/(loss)	Unrealized gain/(loss)
Investment return, net of amount distributed			
	Foreign currency	\$ -	\$ 17
	Commodity	-	-
	Synthetic	(95)	(629)
	Interest rate	(29,732)	(24,655)
	Total unrealized gain/(loss)	\$ (29,827)	\$ (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 presented 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****A. General Information**

Land, buildings, and equipment are detailed as follows:

<u>LAND, BUILDINGS, AND EQUIPMENT</u>		
	Book value at <u>June 30, 2016</u>	Book value at <u>June 30, 2015</u>
Land, buildings, and equipment	\$ 5,387,099	\$ 5,137,028
Furniture, equipment, books, and collections	1,237,981	1,213,226
Construction in progress	<u>489,898</u>	<u>311,793</u>
Total before accumulated depreciation	\$ 7,114,978	\$ 6,662,047
Accumulated depreciation	<u>(3,105,693)</u>	<u>(2,873,671)</u>
Net land, buildings, and equipment	\$ 4,009,285	\$ 3,788,376

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 \$712,553 and \$701,264 at June 30, 2016 and 2015, 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 \$2,048 and \$1,853 at June 30, 2016 and 2015, respectively.

The future commitments on capital projects in progress, excluding projects funded by New York State, are approximately \$152,004 at June 30, 2016.

**B. Cornell Tech Campus**

In December 2011, the University, in partnership with Technion-Israel Institute of Technology, won the Applied Sciences NYC competition to build and operate a new applied sciences and engineering campus in New York City. The city committed through the New York City Economic Development Corporation (NYCEDC) a location and seed funding for the initial construction of the new campus. Under the terms of the agreement with the NYCEDC and the ninety-nine year ground lease for Roosevelt Island, the University made the commitment to create the new applied sciences campus in three phases, with milestones in 2017, 2027 and 2037. In addition, the University has enrollment, faculty, and other operational commitments as part of the agreement.

In 2014, the University broke ground on Roosevelt Island, taking the first steps towards the completion of the Phase I development commitments, which include the first academic building, a residential building, a corporate colocation space, and an executive education facility. The total cost of demolition of the existing structures on the site are considered to be a prepaid cost of the ground lease, and will be amortized over the term of the lease. At June 30, 2016, the unamortized amount of the demolition costs is \$54,026.

On March 31, 2016, the University entered into a joint venture with the Hudson Companies through its subsidiary H/R Tech Residential LLC. The purpose of the new joint venture, called Hudson Cornell Residential JV LLC, is to construct and operate the new residential facility on the Cornell Tech campus. The University has an initial equity interest of 86.59 percent and controlling financial interest and, therefore, consolidates the joint venture. This consolidation resulted in an increase to land, buildings, and equipment (primarily construction-in-progress) of \$71,897 at June 30, 2016. In addition, Hudson Cornell Tech LLC, a subsidiary of Hudson Cornell Residential JV LLC, held bonds and notes payable of \$28,218 at June 30, 2016. Unrestricted net assets of \$5,754, representing the minority interest of H/R Tech Residential LLC, is also consolidated into the University's net assets. Operating activity is immaterial in the current fiscal year.

**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 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 following tables 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)	2016 Total	2015 Total
Funds held in trust by others					
Remainder	Present value calculation	Discount rate Years to maturity	3.10% 0-57 (11)	\$ 64,650	\$ 64,323
Lead and perpetual	Discounted cash flow	Discount rate	4.40%	60,310	54,058
Total funds held in trust by others				\$ 124,960	\$ 118,381
Obligations under split interest agreements	Discounted cash flow	Discount rate Years to maturity	3.70% 0-64 (16)	\$ 135,444	\$ 139,857

#### SUMMARY OF LEVEL 3 SPLIT INTEREST AGREEMENT ACTIVITY

	Fair value at June 30, 2015	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2016
Funds held in trust by others							
Remainder	\$ 64,323	\$ 2,798	\$ (79)	\$ 290	\$ (2,682)	\$ -	\$ 64,650
Lead and perpetual	54,058	6,041	211	-	-	-	60,310
Total funds held in trust by others	\$ 118,381	\$ 8,839	\$ 132	\$ 290	\$ (2,682)	\$ -	\$ 124,960
Obligations under split interest agreements	\$ 139,857	\$ -	\$ (4,413)	\$ -	\$ -	\$ -	\$ 135,444

## 6. DEFERRED BENEFITS

### A. General Information

Accrued employee benefit obligations as of June 30 include:

#### SUMMARY OF DEFERRED BENEFITS

	2016	2015
Postemployment benefits	\$ 27,694	\$ 24,800
Pension and other postretirement benefits	445,623	303,878
Other deferred benefits	183,093	198,896
Total deferred benefits	\$ 656,410	\$ 527,574

Accrued postemployment benefits include workers' compensation and medical continuation benefits for those on long-term disability. Other deferred benefits include primarily vacation accruals, deferred compensation, and medical benefit claims incurred but not yet reported. 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 plans: 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 WCM are carried by the Teachers Insurance and Annuity Association, the College Retirement Equities Fund, the Vanguard Group (WCM only), and Fidelity Investments (Endowed Ithaca only), all of which permit employee contributions. Total costs of the Endowed Ithaca and WCM plans for the fiscal years ended June 30, 2016 and 2015 amounted to \$105,121 and \$95,091 respectively.

WCM maintains the University's only defined benefit plan. The participants include non-exempt employees at WCM who meet the eligibility requirements for participation. The plan was frozen in 1976 for exempt employees at WCM 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.

### 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	
	2016	2015	2016	2015
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 92,405	\$ 81,857	\$ 263,208	\$ 248,368
Actual return on plan assets	1,963	3,869	(6,181)	7,456
Employer contribution	5,500	9,500	18,887	25,027
Benefits paid	(3,759)	(2,821)	(18,210)	(17,643)
Fair value of plan assets at end of year	\$ 96,109	\$ 92,405	\$ 257,704	\$ 263,208
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 121,274	\$ 112,162	\$ 538,217	\$ 474,612
Service cost (benefits earned during the period)	7,199	6,389	24,731	21,060
Interest cost	6,190	5,404	25,150	21,879
Actuarial (gain)/loss	29,697	140	65,896	35,406
Gross benefits paid	(3,759)	(2,821)	(16,497)	(16,160)
Less: federal subsidy on benefits paid	-	-	1,338	1,420
Projected benefit obligation at end of year	\$ 160,601	\$ 121,274	\$ 638,835	\$ 538,217
Funded status	\$ (64,492)	\$ (28,869)	\$ (381,131)	\$ (275,009)
Amounts recognized in the consolidated statement of financial position	\$ (64,492)	\$ (28,869)	\$ (381,131)	\$ (275,009)
Amounts recorded in unrestricted net assets not yet amortized as components of net periodic benefit cost				
Prior service cost	\$ (508)	\$ (600)	\$ -	\$ -
Net actuarial (gain)/loss	52,307	18,815	171,844	82,086
Amount recognized as reduction in unrestricted net assets	\$ 51,799	\$ 18,215	\$ 171,844	\$ 82,086

The accumulated benefit obligation for the pension plans was \$136,219 and \$103,858 at June 30, 2016 and 2015, 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	
	2016	2015	2016	2015
Service cost (benefits earned during the period)	\$ 7,199	\$ 6,389	\$ 24,731	\$ 21,060
Interest cost	6,190	5,404	25,150	21,879
Expected return on plan assets	(6,552)	(5,982)	(19,223)	(18,375)
Amortization of prior service cost	(92)	(92)	-	(62)
Amortization of net (gain)/loss	793	671	1,543	639
Net periodic benefit cost	\$ 7,538	\$ 6,390	\$ 32,201	\$ 25,141

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, 2017 are estimated as follows:

**ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST**

	Pension benefits		Other postretirement	
	2016	2015	2016	2015
Prior service cost	\$ (92)	\$ -	\$ -	\$ -
Net actuarial (gain)/loss	3,230	9,117	9,117	9,117
Total	\$ 3,138	\$ 9,117	\$ 9,117	\$ 9,117

**E. Actuarial Assumptions**

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

**SUMMARY OF ACTUARIAL ASSUMPTIONS**

	Pension benefits		Other postretirement	
	2016	2015	2016	2015
Used to calculate benefit obligations at June 30				
Discount rate	3.94%	4.80%	3.83% / 3.79%	4.67% / 4.61%
Rate of compensation increase	3.00%	3.00%		
Used to calculate net periodic cost at July 1				
Discount rate	4.80%	4.55%	4.67% / 4.61%	4.47% / 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%	6.50%
Ultimate trend rate	n/a	n/a	4.50%	4.50%
Years to reach ultimate trend rate	n/a	n/a	5	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 one percent in each future year would increase the benefit obligation by \$149,914 and the annual service and interest cost by \$12,451. Decreasing the health care cost trend rate by one percent in each future year would decrease the benefit obligation by \$101,732 and the annual service and interest cost by \$9,096.

**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 a custodial bank as trustee and investment manager for WCM'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, the custodial bank establishes investment allocations and implements those allocations through various investment funds in order to carry out the investment objectives. The custodial bank has also been appointed as investment manager for WCM's postretirement medical benefit plan with full discretion as to investment allocations in specific named funds managed by the bank.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

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.

The expected rate of return assumptions are based on the expertise provided by investment managers at the custodial 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, 2016 are similar to the prior fiscal year: 7.2 percent on equity securities, 4.4 percent on fixed income securities, and 5.5 percent on real estate, compared to 6.9 percent, 4.4 percent and 6.0 percent, respectively.

The fair values 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	
		2016	2015	2016	2015
Percentage of plan assets					
Equity securities	39-85%	62.0%	63.0%	72.0%	73.0%
Fixed income securities	15-55%	32.0%	31.0%	28.0%	27.0%
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	2016	2015
	fair value	fair value	fair value	Total	Total
Cash and cash equivalents					
Money market	\$ 287	\$ -	\$ -	\$ 287	\$ 2,123
Equity securities					
U.S. small cap	-	5,695	-	5,695	5,934
U.S. large cap	-	28,677	-	28,677	28,211
U.S. multi cap	-	5,757	-	5,757	5,606
U.S. REITS	-	2,411	-	2,411	2,321
Emerging markets	-	4,795	-	4,795	3,677
International equity	-	11,836	-	11,836	12,443
Fixed income securities					
U.S. high yield bonds	-	4,846	-	4,846	3,718
Corporate bonds	-	20,093	-	20,093	18,304
Mortgage-backed securities	-	2,382	2,627	5,009	4,187
International fixed income	-	1,041	-	1,041	1,753
Other types of investments					
Real estate	-	-	5,736	5,736	5,970
Receivable for investments sold	769	-	-	769	455
Payable for investments purchased	(843)	-	-	(843)	(2,297)
Total assets	\$ 213	\$ 87,533	\$ 8,363	\$ 96,109	\$ 92,405

SUMMARY OF LEVEL 3 PENSION PLAN ACTIVITY

	Fair value, June 30, 2015	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value, June 30, 2016
	Mortgage-backed securities	\$ 2,451	\$ -	\$ 176	\$ -	\$ -	\$ -
Real estate	5,970	237	113	266	(850)	-	5,736
Total Level 3 assets	\$ 8,421	\$ 237	\$ 289	\$ 266	\$ (850)	\$ -	\$ 8,363

## POSTRETIREMENT PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2016 Total	2015 Total
Cash and cash equivalents					
Money market	\$ 2,428	\$ -	\$ -	\$ 2,428	\$ 6,259
Equity securities					
U.S. small cap	-	27,058	-	27,058	29,972
U.S. large cap	-	80,380	-	80,380	85,720
Emerging markets	-	26,311	-	26,311	24,463
International equity	-	43,750	-	43,750	46,834
U.S. REITS	-	7,160	-	7,160	6,316
Fixed income securities					
U.S. high yield bonds	-	11,528	-	11,528	9,277
Corporate bonds	-	55,067	-	55,067	49,111
Emerging markets debt	-	4,017	-	4,017	5,256
Receivable for investments sold	1,425	-	-	1,425	1,384
Payable for investments purchased	(1,420)	-	-	(1,420)	(1,384)
Total assets	\$ 2,433	\$ 255,271	\$ -	\$ 257,704	\$ 263,208

## 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			
2017	\$ 5,500	\$ 18,298	n/a
Future benefit payments			
2017	5,297	19,611	1,779
2018	5,586	21,383	1,973
2019	5,687	23,360	2,166
2020	6,146	25,206	2,366
2021	6,893	26,962	2,572
2022-2026	42,285	162,378	16,687

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, 2016 and 2015 were \$18,192 and \$18,942, respectively, and were included in operating expenses.

## 7. FUNDS HELD 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 \$268,421 and \$297,637 for the fiscal years ended June 30, 2016 and 2015, respectively. The University recognizes an offsetting liability for funds held for others, with one adjustment described below.

The New York Hospital-Cornell Medical Center Fund, Inc. (Center Fund), which benefits Weill Cornell Medicine 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 \$162,153 and \$176,873 for the fiscal years ended June 30, 2016 and 2015, respectively. Because WCM holds a significant beneficial interest in the assets of the Center Fund, the liability is reduced by \$115,356 and \$102,104 for the fiscal years ended June 30, 2016 and 2015, respectively, representing the present value of the future income stream that will benefit WCM.

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. The fair value of BTI investments was \$68,824 and \$85,651 for the fiscal years ended June 30, 2016 and 2015, respectively, 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

	2016	2015	Interest rates	Final maturity
Dormitory Authority of the State of New York (DASNY)				
Revenue Bond Series				
1990B-fixed rate	\$ 34,275	\$ 37,250	4.50 to 5.00%	2025
2000A-variable rate/monthly	40,300	42,630	0.01 to 0.78	2029
2000B-variable rate/monthly	55,720	58,500	0.01 to 0.78	2030
2004A&B-variable rate/weekly	68,750	71,500	0.01 to 0.45	2033
2006A-fixed rate	-	157,795	4.40 to 5.00	2016
2008B&C-fixed rate	112,235	115,115	5.00	2037
2009A-fixed rate	274,950	281,460	3.00 to 5.00	2039
2010A-fixed rate	285,000	285,000	4.00 to 5.00	2040
2016A-fixed rate	125,850	-	2.00 to 5.00	2035
Tax-exempt commercial paper	52,890	52,890	0.04 to 0.53	2037
Tompkins County Industrial Development Agency (TCIDA)				
2002A-variable rate/monthly	34,045	35,765	0.01 to 0.78	2030
2008A-fixed rate	60,885	62,570	3.00 to 5.00	2037
Empire State Development	1,625	1,750	-	2029
2009 Taxable-fixed rate	250,000	250,000	5.45	2019
2007A Taxable commercial paper	83,890	83,890	0.16 to 0.55	-
Hudson Cornell Residential JV LLC	28,218	-	2.68 to 2.72	2019
Other	6,502	6,719	4.90 to 6.63	2039
Total bonds and notes payable	\$ 1,515,135	\$ 1,542,834		

The University's bonds and notes payable have estimated fair values of approximately \$1,667,345 and \$1,673,356 at June 30, 2016 and 2015, respectively. The fair value of fixed-rate debt obligations are based on estimates of the prevailing market yield and resulting price for each maturity of outstanding debt at June 30 of each year. Variable-rate debt obligations approximate fair value because the obligations are currently callable at a price equal to the amounts outstanding. 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**

	<b>2016</b>	<b>2015</b>
Interest expense to bondholders and other debt	\$ 53,815	\$ 59,865
Interest expense paid on swap agreements	29,055	32,357
Capitalized interest on capital assets	-	(2,775)
<b>Total interest expense</b>	<b>\$ 82,870</b>	<b>\$ 89,447</b>

Debt and related debt service for 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 has not granted a pledge of revenue on other debt.

During the fiscal year ended June 30, 2016, the University restructured the DASNY Series 2000A and Series 2000B bonds and the TCIDA Series 2002A bonds to a ten year, variable-rate direct purchase with Bank of America Merrill Lynch. The variable rate is calculated using a percentage of LIBOR plus the applicable margin. The University also issued \$125,850 DASNY Series 2016A fixed-rate bonds to effect a current refunding of DASNY Series 2006A bonds in order to achieve present value savings. The University wrote off \$6,042 of bond premium and \$2,265 of Series 2006 bond issuance costs.

Hudson Cornell Tech LLC, a subsidiary of Hudson Cornell Residential JV LLC (see Note 4B), contracted with Wells Fargo Bank, N.A. for a variable-rate building and equipment loan up to \$105,000. As of June 30, 2016, \$28,218 has been drawn. The loan is secured by a security interest in the building.

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 WCM 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
2017	\$ 29,027	\$ 88,578	\$ 117,605
2018	30,954	85,705	116,659
2019	310,572	83,194	393,766
2020	33,714	65,930	99,644
2021	35,266	63,147	98,413
Thereafter	1,075,602	689,456	1,765,058
<b>Total</b>	<b>\$ 1,515,135</b>	<b>\$ 1,076,010</b>	<b>\$ 2,591,145</b>

The University estimates future interest payments on variable-rate debt based on the Securities Industry and Financial Markets Association (SIFMA) swap rate for tax-exempt debt and the 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 in the 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 counterparty risk, the University limits 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.

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 by Moody's Investors Service or A+ by Standard & Poor's Rating Services, and the agreement is in a liability position of \$20 million or greater. At June 30, 2016 and 2015, 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, 2016, the University had five 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 of these swap agreements are recorded as adjustments to interest expense in the consolidated statement of activities, and the incremental interest expense is disclosed in the second table in the previous section. In all agreements in effect at June 30, 2016, the counterparty pays a variable interest rate equal to a percentage of the one-month LIBOR. During the fiscal year ended June 30, 2016, a swap contract with a notional amount of \$94,870 expired.

The following table provides detailed information on the interest rate swaps at June 30, 2016, with comparative fair values for June 30, 2015. The swaps are reported based on notional amount.

#### FAIR VALUE OF INTEREST RATE SWAPS IN STATEMENT OF FINANCIAL POSITION

Location	Notional amount	Interest rate	Termination date	Basis	2016 Level 2 fair value	2015 Level 2 fair value
Accounts payable and accrued expenses						
	\$ -	2.99 %	October 1, 2015	LIBOR	\$ -	\$ (887)
	35,765	4.52	July 1, 2030	LIBOR	(9,581)	(8,263)
	92,115	3.92	July 1, 2038	LIBOR	(29,407)	(21,807)
	275,000	3.88	July 1, 2040	LIBOR	(129,286)	(86,992)
	196,340	3.48	July 1, 2041	LIBOR	(58,169)	(39,730)
	196,990	3.77	July 1, 2044	LIBOR	(70,260)	(49,059)
Total fair value					\$ (296,703)	\$ (206,738)

The change in value of 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 a standby bond purchase agreement with BNY Mellon (expiring January 2019) to purchase the DASNY Series 2004 bonds in the event that these bonds cannot be remarketed. In the event that the bonds cannot be remarketed and the agreement is 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 \$2,900, \$3,025, and \$62,825 for the fiscal years ending June 30, 2017, 2018, and 2019, respectively. During the fiscal year ended June 30, 2016, the University terminated standby purchase agreements for DASNY Series 2000A and 2000B bonds, and TCIDA Series 2002A bonds.

#### 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, 2016 and 2015, 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 into operating lease agreements for the use of real property. Total lease expenses were \$31,284 and \$29,172 for the fiscal years ended June 30, 2016 and 2015, 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
2017	\$ 31,968
2018	34,340
2019	35,597
2020	34,795
2021	30,915
Thereafter	350,423
Total minimum operating lease payments	\$ 518,038

## 10. FUNCTIONAL EXPENSES AND STUDENT AID

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

FUNCTIONAL EXPENSES		
	2016	2015
Instruction	\$ 829,432	\$ 809,829
Research	596,434	568,510
Public service	123,961	125,829
Academic support	278,666	268,795
Student services	170,531	158,047
Medical services	1,067,470	938,350
Institutional support	553,733	527,059
Enterprises and subsidiaries	273,416	265,206
Total expenses	\$ 3,893,643	\$ 3,661,625

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 \$203,308 and \$224,652 for the fiscal years ended June 30, 2016 and 2015, 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 \$46,156 and \$46,575 for the fiscal years ended June 30, 2016 and 2015, 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	2016 Total	2015 Total
<b>Endowment</b>					
True endowment	\$ (66,014)	\$ 1,337,142	\$ 2,681,431	\$ 3,952,559	\$ 4,121,652
Funds functioning as endowment (FFE)	1,235,624	396,014	-	1,631,638	1,761,865
Total true endowment and FFE	\$ 1,169,610	\$ 1,733,156	\$ 2,681,431	\$ 5,584,197	\$ 5,883,517
Funds held by others, perpetual	-	-	173,525	173,525	154,029
Total University endowment	\$ 1,169,610	\$ 1,733,156	\$ 2,854,956	\$ 5,757,722	\$ 6,037,546
<b>Other net assets</b>					
Operations	(293,934)	411,938	-	118,004	89,455
Student loans	5,675	113	46,422	52,210	50,723
Facilities and equipment	2,664,188	145,558	-	2,809,746	2,641,989
Split interest agreements	-	56,663	38,651	95,314	110,860
Funds held by others, other than perpetual	-	45,353	21,772	67,125	66,895
Contributions receivable, net	-	811,223	175,099	986,322	1,093,843
Long-term accruals	(847,449)	-	-	(847,449)	(609,900)
Total net assets	\$ 2,698,090	\$ 3,204,004	\$ 3,136,900	\$ 9,038,994	\$ 9,481,411

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**

	2016	2015
Academic programs and research	\$ 1,511,788	\$ 1,645,643
Financial aid	1,463,388	1,540,842
Professorships	1,151,134	1,190,638
General purpose and other	1,202,771	1,232,599
Facilities support	97,691	127,811
CU Foundation	157,425	145,984
Total true endowment and FFE, end of year	\$ 5,584,197	\$ 5,883,517

Of the endowment assets held at the University, 96 percent were invested in the LTIP at June 30, 2016 and 2015. The LTIP is a mutual-fund-like vehicle used for investing the University's true endowments, 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, 2016, 1,823 of 6,896 true endowment funds invested in the LTIP had a total historic dollar value of \$982,853 and a fair value of \$916,839, resulting in these endowments being underwater by a total of \$66,014. 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	2016 Total	2015 Total
True endowment and FFE, beginning of year	\$ 1,367,720	\$ 2,026,582	\$ 2,489,215	\$ 5,883,517	\$ 5,744,869
Investment return					
Net investment income	11,763	32,042	425	44,230	51,852
Net realized and unrealized gain/(loss)	(112,845)	(114,531)	1,859	(225,517)	141,861
Total investment return	\$ (101,082)	\$ (82,489)	\$ 2,284	\$ (181,287)	\$ 193,713
New gifts	3,182	39,557	141,715	184,454	241,117
Amounts appropriated for expenditure/reinvestment	(80,815)	(220,055)	5,539	(295,331)	(273,163)
Other changes and reclassifications	(19,395)	(30,439)	42,678	(7,156)	(23,019)
Total true endowment and FFE, end of year	\$ 1,169,610	\$ 1,733,156	\$ 2,681,431	\$ 5,584,197	\$ 5,883,517

## 12. SELF-INSURANCE

The University retains self-insurance for property, general liability, student health insurance, and certain health benefits, and has an equity interest in a multi-provider captive insurance company.

### A. Medical Malpractice

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 WCM's faculty physicians are enrolled in MCIC. The medical malpractice incurred but not reported liability is calculated annually on an actuarial basis.

WCM has recorded medical malpractice liabilities of \$150,096 and \$139,004 at June 30, 2016 and 2015, respectively, as other liabilities in the consolidated statement of financial position. In addition, WCM maintains a reinsurance program with MCIC with anticipated recoveries of \$102,891 and \$95,424, respectively, recorded as accounts receivable (Note 2A).

### B. Student Health Plan

During the fiscal year ended June 30, 2015, the University established a self-funded student health plan under Section 1124 of the New York State Insurance Law (NYSIL). The Student Health Plan (SHP) provides extensive health insurance coverage at a reasonable cost to students at the University's Ithaca-based campuses. SHP was developed especially for students (and their dependents) to provide access to convenient and comprehensive care that complements the quality health services offered on campus. The current plan year began on August 17, 2015. The table below presents a summary of SHP operations occurring during the University's fiscal year ended June 30, 2016.

#### SUMMARY OF STUDENT HEALTH PLAN OPERATIONS

	July 1 - August 16 (prior plan year)	August 17 - June 30 (current plan year)	2016 Fiscal year total
Total premium revenue	\$ 3,652	\$ 24,753	\$ 28,405
Expenses			
Medical and prescription drug expense	2,843	14,348	17,191
Health center capitation	463	5,088	5,551
Administrative fees	358	2,626	2,984
Total expenses	\$ 3,664	\$ 22,062	\$ 25,726
Net income from health plan operations	\$ (12)	\$ 2,691	\$ 2,679

The University has established reserves with the amounts necessary to satisfy obligations of the plan. Based on an analysis and recommendation of a qualified actuary, and with the approval of New York State, the reserve for medical claims incurred but not reported (IBNR) and claims reported but not paid (RBNP) is maintained at an amount not less than 14.5 percent of expected medical claims and 5 percent of expected pharmacy drug claims. In addition, a separate contingency reserve has been established for the purpose of satisfying unexpected obligations in the event of termination of the plan. The contingency reserve is maintained at an amount not less than 5 percent of the total current plan year premiums and is invested in the University's endowment. NYS requires that the assets of the contingency reserve consist of certain investments of the types specified in Section 1404 of NYSIL. The specified types of investments include U.S. government securities categorized in fair-value hierarchy Level 1, of which the University holds \$65,622 in its investment portfolio as of June 30, 2016 (Note 3B). Premium revenue is billed in advance of the plan year (unearned) and recognized as revenue on a monthly basis as coverage is provided. The changes in the unearned premiums and SHP reserves during the fiscal year ended June 30, 2016 are presented below.

#### SUMMARY OF STUDENT HEALTH PLAN UNEARNED PREMIUMS AND RESERVES

	Unearned premiums 2014-2015 plan year	Unearned premiums 2015-2016 plan year	IBNR/RBNP reserve	Contingency reserve
Balance as of July 1	\$ 3,412	\$ -	\$ 2,409	\$ 1,374
Balance as of June 30	-	3,625	2,500	1,547
Net change	\$ (3,412)	\$ 3,625	\$ 91	\$ 173

### 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.

### 14. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 27, 2016, the date on which the consolidated financial statements were issued and determined no material impact on the University's consolidated financial statements.

**UNIVERSITY ADMINISTRATION**

Hunter R. Rawlings III, *Interim President*  
 Michael I. Kotlikoff, *Provost*  
 Augustine M.K. Choi, *Interim Provost for Medical Affairs and Interim Stephen and Suzanne Weiss Dean of Weill Cornell Medicine*

Judith A. Appleton, *Vice Provost*  
 Robert A. Buhrman, *Senior Vice Provost for Research and Vice President for Technology Transfer, Intellectual Property and Research Policy*  
 Michael S. Fontaine, *Acting Dean of Faculty*  
 Stephen M. Cohen, *Executive Vice Provost for Weill Cornell Medicine*  
 Joanne M. DeStefano, *Executive Vice President and Chief Financial Officer*  
 Cody A. Danks Burke and Roger B. Vincent Jr., *Co-Chief Investment Officers*  
 Daniel P. Huttenlocher, *Vice Provost for Cornell Tech*  
 Barbara A. Knuth, *Senior Vice Provost*  
 David A. Lifka, *Vice President for Information Technologies and Chief Information Officer*  
 Ryan T. Lombardi, *Vice President for Student and Campus Life*  
 Joel M. Malina, *Vice President for University Relations*  
 James J. Mingle, *University Counsel and Secretary of the Corporation*  
 Glen C. Mueller, *University Auditor*  
 Mary G. Opperman, *Vice President and Chief Human Resources Officer*  
 John A. Siliciano, *Deputy Provost and Interim Vice Provost for Undergraduate Education*  
 Laura M. Spitz, *Vice Provost for International Affairs*  
 Paul J. Streeter, *Vice President for Budget and Planning*  
 Fredrick M. Van Sickle, *Vice President for Alumni Affairs and Development*  
 Kyu-Jung Whang, *Vice President for Infrastructure, Properties and Planning*

**ACADEMIC UNITS**

College of Agriculture and Life Sciences  
 Kathryn J. Boor, *Ronald P. Lynch Dean*  
 College of Architecture, Art, and Planning  
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Weill Cornell Medicine in New York City at dusk.

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