2016-2017 Financial Report

Cornell University

Cornell University 2016-2017 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

	2016-17	2015-16	2014-15
Fall enrollment (excluding in absentia)			
Undergraduate	14,566	14,315	14,453
Graduate	5,965	5,879	5,757
Professional	2,857	2,746	2,663
Total fall enrollment	23,388	22,940	22,873
Degrees granted			
Baccalaureate degrees	3,646	3,758	3,674
Masters degrees	2,792	2,598	2,502
Ph.D. degrees	555	555	555
Other doctoral degrees (J.D., M.D., D.V.M.)	403	386	374
Total degrees granted	7,396	7,297	7,105
Tuition rates			
Endowed Ithaca	$ 50,712	$ 48,880	$ 47,060
Contract Colleges			
Resident	$ 33,968	$ 32,740	$ 30,910
Nonresident	$ 50,712	$ 48,880	$ 47,050
Medical Campus	$ 52,500	$ 50,950	$ 49,500
Business	$ 61,584	$ 59,532	$ 58,192
Law	$ 61,400	$ 59,950	$ 59,360
Veterinary Medicine	$ 33,732	$ 32,750	$ 31,800
Volumes in library (in thousands)	8,184	8,087	8,046
Academic workforce			
Full-time employees			
Faculty	3,964	3,842	3,705
Nonfaculty	881	882	888
Part-time employees			
Faculty	299	285	281
Nonfaculty	153	192	145
Total academic workforce	5,297	5,201	5,019
Nonacademic workforce			
Full-time employees	11,225	10,866	10,475
Part-time employees	611	575	579
Total nonacademic workforce	11,836	11,441	11,054
University Endowment			
Market value of total university endowment (in millions)	$ 6,516.4	$ 5,757.7	$ 6,037.5
Unit value of Long Term Investment Pool	$ 55.51	$ 52.32	$ 57.31
Gifts received, excluding pledges (in millions)	$ 535.9	$ 512.0	$ 540.3
New York State appropriations through SUNY (in millions)	$ 132.0	$ 131.5	$ 131.4
Medical Physician Organization fees (in millions)	$ 1,050.4	$ 982.4 *	$ 927.6
Sponsored research volume (in millions)			
Direct expenditures	$ 493.4	$ 496.3	$ 497.4
Indirect-cost recovery	$ 131.5	$ 138.0	$ 138.6
Selected land, buildings, and equipment items & related debt (in millions)			
Additions to land, buildings, and equipment	$ 545.0	$ 471.4	$ 335.8 *
Cost of land, buildings, and equipment	$ 7,613.6	$ 7,115.0	$ 6,662.0
Outstanding bonds, mortgages, notes payable and capital leases	$ 1,356.7	$ 1,519.5 *	$ 1,542.8

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

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Cornell's fiscal position strengthened in a number of ways in fiscal year 2017. Our operating margins improved, investment return was 12.5 percent, and post-retirement benefit and swap liabilities decreased by $50 million and $81 million, respectively. There continues to be an extraordinary demand for a Cornell education, and we are well-positioned under the leadership of our new President, Martha E. Pollack, to remain one of the preeminent research institutions in the world.

Over 47,000 prospective students applied for 3,375 undergraduate places in the Class of 2021, and we remain selective in our admissions process, with a 12.7 percent acceptance rate for fall 2017 freshman applicants, compared with 14.1 percent a year ago. Cornell also maintains a steady matriculation yield rate, which has consistently averaged more than 50 percent. And, with 11.5 percent of our undergraduate students from outside the United States, our geographical profile remains diverse and global. We achieve this level of selectivity and diversity while honoring our commitment to our land-grant mission, with 31 percent of the Class of 2021 hailing from New York state.

University operating revenues have grown by 25 percent over the past five years, from $3.2 billion to $4.0 billion. The largest growth area has been the Medical Physician Organization at Weill Cornell Medicine, which now makes up over 26 percent of the University's total operating revenue (compared to 22 percent in fiscal year 2012).

Cornell remains a leader in research, a critical factor in attracting outstanding faculty members and enhancing the educational experience for both undergraduate and graduate students. The University generated almost $600 million in grant and contract revenues in fiscal year 2017, comprising 15 percent of the University's total operating revenues.

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 2017. University operating expenses increased over $160 million, or 4 percent, from over $3.8 billion to $4.0 billion, this past year. This is mainly the result of the almost 7 percent increase in the Medical Physician Organization over the same period. The University experienced an operating loss of $7.5 million this year.

As of June 30, 2017, Cornell had $1.3 billion of bonds and notes outstanding, including $137 million of outstanding commercial paper. The University has a notional amount of $785 million in interest rate swaps, whose fair value is determined by an external swap consultant. Change in valuation between June 30, 2016 and June 30, 2017, decreased the mark-to-market liability by $81 million, due to the change in interest rates over this period. In February, the University redeemed its Series 2009 taxable bonds with a maturity date in January 2019.

Over the past fiscal year, there has been no shortage of uncertainties. We have, however, managed through these challenges to place Cornell on a firmer fiscal footing. I am certain that the coming year will continue to present challenges for higher education, which we are committed to facing head-on, while focusing on our commitment to "One Cornell" and mission-critical priorities set forth by President Pollack. 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

Joanne M. DeStefano
Executive Vice President and Chief Financial Officer

OVERVIEW

The University ended the fiscal year with over $10.0 billion in net assets, up from $9.0 billion the previous year. Total unrestricted net assets are $3.1 billion. Total assets increased by $668.9 million, while total liabilities decreased by $316.8 million. The change in net assets from operating activities increased from the prior year, with a $7.5 million net operating loss for the year, and the change in net assets from non-operating activities swung from a decrease of $391.9 million in the prior year to an increase of $993.1 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 sixty-seven 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 for fiscal year 2020.

ASU 2017-07—Compensation—Retirement Benefits (Topic 715) allows only the service costs to be presented as operating expenses; the other elements of the net periodic costs must be considered non-operating. The effective date of this change is the fiscal year ending June 30, 2019; however, the University has elected to adopt this standard for the fiscal year ended June 30, 2017. More information about these and other recent standards impacting the University can be found in Note 1P.

FINANCIAL YEAR IN REVIEW

Statement of Financial Position

The University's overall net assets increased by $985.6 million. Because of this performance in the current year, the statement of financial position, or balance sheet, has been strengthened, with over of $10.0 billion in net assets, including $3.1 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 2017, cash was $.8 million lower than the prior year, which represents a decrease of .5 percent.

Receivables from all sources, more fully disclosed in Note 2 of the consolidated financial statements, decreased by $96.8 million, or 11.3 percent.

Investments as of June 30, 2017 were $7.1 billion, an 8.2 percent increase from the prior year. The increase in the fair value is primarily the result of unrealized net gains as of the end of this fiscal year in addition to an increase of 6.1 percent in participation in the LTIP. Fair-value adjustments 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 $247.5 million or 6.2 percent increase in land, buildings, and equipment in fiscal year 2017 consists of projects placed in service as well as construction in progress ("CIP"). During the fiscal year, the University placed into service renovations to Upson Hall, Cornell Health, and Kimball Hall. CIP at fiscal year-end includes several major projects, such as the College of Veterinary Medicine expansion and the Ag Quad Utility Infrastructure Upgrade and Landscape Revitalization. Cornell Tech also recorded a capital lease for a co-location building (now named "The Bridge") at a value of $64.2 million.

Liabilities

In total, accounts payable and accrued expenses decreased by $75.8 million for the year.

Of the deferred benefits of $610.5 million, $395.2 million relates to pension and other postretirement benefits, which decreased 11.3 percent over the prior year due to factors described below. These liabilities are further disclosed in Note 6.

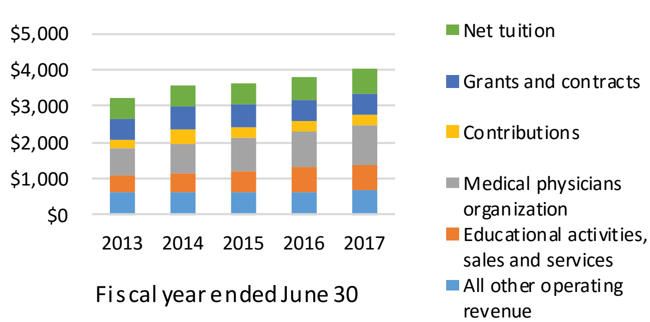
Funds held in trust for others represent resources that are invested by the University as a custodian for other closely related parties. Independent trustees are responsible for investing the funds and for the designation of income distribution. The decrease of $16 million was the result of a combination of withdrawals amounting to $35 million, and an increase in market value.

The bonds and notes payable decline of $235.1 million was due primarily to the 2009 bond debt defeasance of $250 million and $29 million in principal payments, offset by $52.7 million additional debt for the Hudson JV building and project loans. These bonds and notes payable are further disclosed in Note 8.

Operating Revenues

For fiscal year 2017, operating expenses exceeded operating revenue by .19 percent, resulting in a $7.5 million net operating loss. The Medical Physician Organization continues to grow, with revenues up 6.9 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 $136.6 million, or 4.8 percent, while operating expenses increased by $161.6 million, or 4.2 percent. The following graph shows University consolidated revenues for the past five years.

Operating Revenues
(in millions)



In fiscal year 2017, gross tuition revenue increased by 4.6 percent, as a result of Board-authorized tuition increases and a slight increase of 448 students, for an overall enrollment of 23,388. 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.

Combined direct and indirect revenues from grants and contracts increased slightly, by 1.7 percent.

Contribution revenue for operations was $297.6 million, or an 11.6 percent increase from the prior year.

Distributed investment return increased by 8.5 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 $33.9 million, or 4.9 percent. Of this increase, $24.4 million resulted from additional support from New York Presbyterian Hospital.

Net assets released from restrictions 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 2017, this amount was $356.9 million.

Operating Expenses

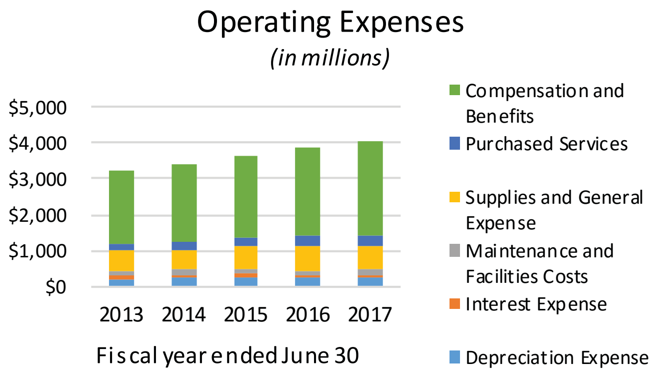
Expenses for compensation and benefits are the major component of operating expenses for a research university, and Cornell is no exception. Consistent with the prior year, salary and benefit expense is 64.3 percent of overall operating expenses. This expense increased by $142.8 million, or 5.9 percent. 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 decreased in fiscal year 2017 by $10.6 million, or 1.6 percent.

Other operating expenses 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. The following graph shows University consolidated expenses for the past five years.

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)



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 $212.8 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 $3.5 million from the prior year.

In 2016, funding was received from the New York City Economic Development Corporation and used for the construction of the new campus on Roosevelt Island. Grants and contracts for capital acquisitions decreased by $8.4 million in the current year because this project is near completion.

Non-operating contributions for buildings, trusts, and permanent endowment were $390.5 million, resulting in a 59.0 percent increase from the prior year.

The $175.0 million year-over-year increase in value of interest rate swaps is based on the fair value of the debt swap portfolio at June 30.

The overall non-operating gain of $993.1 million for fiscal year 2017 is driven by the remaining income and expense items that are significantly affected by market factors. The $405.0 million gain reflected as investment return in the non-operating section is net of the amount distributed of $355.9 million reflected in the operating section of the statement of activities. The total operating and non-operating return for fiscal year 2017 is a $760.9 million gain, which includes $361.0 million of unrealized gains. The investment return for long-term investments was 12.5 percent for the year, as compared with -3.3 percent in the prior year. Over the last three years, the annualized return of the long-term investments is 4.0 percent.

The $195.4 million year-over-year increase, 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 gains were driven primarily by increases in the discount rates used and by favorable actual vs. expected investment returns.

Summary

As we celebrate the inauguration of Cornell University's President Martha E. Pollack and the official opening of our exciting new Cornell Tech campus on New York City's Roosevelt Island, we are buoyed by the prospects for an incredible future. The current year's financial results are indicative of the University's commitment to manage operating expenses, enhance new and existing revenue streams, and improve processes and procedures. I am confident that we will continue to strengthen our business model and our commitment to "One Cornell" through focus and connectivity, and remain dedicated to our stewardship responsibilities.

William Sibert
University Controller

2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
$ 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	$5,629.0
236.8	190.5	573.9	210.6	155.3	287.4	349.7	378.2	337.0	479.2
(130.1)	(340.9)	(578.7)	(286.9)	(233.0)	(354.1)	(422.2)	(440.8)	(439.2)	(414.0)
73.9	(1433.4)	433.7	774.9	(57.2)	468.4	780.2	140.0	(242.5)	669.1
$ 5,378.1	$ 3,794.3	$ 4,223.2	$4,921.8	$4,786.9	$5,188.6	$5,896.3	$5,973.7	$5,629.0	$6,363.3
$ 65.37	$ 45.12	$ 47.38	$ 53.58	$ 50.67	$ 53.30	$ 58.45	$ 57.31	$ 52.32	$ 55.51

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 statement of financial position as of June 30, 2017 and the related consolidated statements of activities and of cash flows for the year then ended.

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
We have previously audited the consolidated balance sheet as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended (not presented herein), and in our report dated October 27, 2016, 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, 2016 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

October 25, 2017

PricewaterhouseCoopers LLP, 1200 Bausch & Lomb Place, Rochester, NY 14604

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2017 AND JUNE 30, 2016 (in thousands)

		2017	2016
	Assets		
1	Cash and cash equivalents	$ 181,265	$ 182,096
2	Accounts receivable, net (note 2-A)	392,435	404,061
3	Contributions receivable, net (note 2-B)	902,846	986,322
4	Prepaid expenses and other assets	136,032	140,377
5	Student loans receivable, net (note 2-C)	79,211	80,956
6	Investments (note 3)	7,124,578	6,587,175
7	Land, buildings, and equipment, net (note 4)	4,256,807	4,009,285
8	Funds held in trust by others (note 5)	110,917	124,960
9	Total assets	$ 13,184,091	$ 12,515,232
	Liabilities		
10	Accounts payable and accrued expenses	$ 637,597	$ 713,414
11	Deferred revenue and other liabilities	190,025	195,448
12	Obligations under split interest agreements (note 5)	133,459	135,444
13	Deferred benefits (note 6)	610,516	656,410
14	Funds held for others (note 7)	137,093	153,065
15	Obligations under capital leases (note 9)	67,842	4,359
16	Bonds and notes payable (note 8)	1,332,261	1,567,368
17	Government advances for student loans	50,679	50,730
18	Total liabilities	3,159,472	3,476,238
	Net assets (note 11)		
19	Unrestricted	3,120,525	2,698,090
20	Temporarily restricted	3,329,946	3,204,004
21	Permanently restricted	3,574,148	3,136,900
22	Total net assets	10,024,619	9,038,994
23	Total liabilities and net assets	$ 13,184,091	$ 12,515,232

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

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR-ENDED JUNE 30, 2017 (in thousands)

(WITH SUMMARIZED INFORMATION FOR THE YEAR-ENDED JUNE 30, 2016)

		Unrestricted	Temporarily Restricted
	Operating revenues		
1	Tuition and fees	$ 1,044,627	$ -
2	Scholarship allowance	(367,731)	-
3	Net tuition and fees	676,896	-
4	State and federal appropriations	150,912	-
5	Grants, contracts and similar agreements		
6	Direct	451,023	-
7	Indirect cost recoveries	146,037	-
8	Contributions	88,777	208,851
9	Investment return, distributed	213,667	142,237
10	Medical Physician Organization	1,050,433	-
11	Auxiliary enterprises	162,433	-
12	Educational activities and other sales and services	722,590	-
13	Net assets released from restrictions	356,928	(356,928)
14	Total operating revenues	4,019,696	(5,840)
	Operating expenses (note 10)		
15	Compensation and benefits	2,585,582	-
16	Purchased services	315,228	-
17	Supplies and general	655,409	-
18	Maintenance and facilities costs	132,302	-
19	Interest expense (note 8)	52,635	-
20	Depreciation	280,176	-
21	Total operating expenses	4,021,332	-
22	Change in net assets from operating activities	(1,636)	(5,840)
	Nonoperating revenues and (expenses)		
23	State appropriations for capital acquisitions	45,096	-
24	Grants, contracts and similar agreements for capital acquisitions	31,168	-
25	Contributions for capital acquisitions, trusts and endowments	10,258	69,391
26	Investment return, net of amount distributed	147,906	237,496
27	Change in value of split interest agreements	19,979	(16,111)
28	Pension and postretirement changes	64,213	-
29	Swap interest and change in value of interest rate swaps	55,560	-
30	Other	(8,659)	-
31	Net asset released for capital acquisitions and reclassifications	58,550	(158,994)
32	Change in net assets from nonoperating activities	424,071	131,782
33	Change in net assets	422,435	125,942
34	Net assets, beginning of the year	2,698,090	3,204,004
35	Net assets, end of the year	$ 3,120,525	$ 3,329,946

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

Permanently Restricted	2017 Total	2016 Total	
$ -	$ 1,044,627	$ 998,942	1
-	(367,731)	(352,179)	2
-	676,896	646,763	3
-	150,912	149,138	4
			5
-	451,023	444,818	6
-	146,037	142,010	7
-	297,628	266,629	8
-	355,904	327,906	9
-	1,050,433	982,430	10
-	162,433	160,853	11
-	722,590	688,667	12
-	-	-	13
-	4,013,856	3,809,214	14
-	2,585,582	2,442,735	15
-	315,228	313,165	16
-	655,409	666,041	17
-	132,302	122,324	18
-	52,635	56,803	19
-	280,176	258,698	20
-	4,021,332	3,859,766	21
-	(7,476)	(50,552)	22
-	45,096	41,604	23
-	31,168	39,592	24
310,886	390,535	245,669	25
19,612	405,014	(467,085)	26
6,703	10,571	(4,236)	27
-	64,213	(131,152)	28
-	55,560	(119,020)	29
(397)	(9,056)	2,763	30
100,444	-	-	31
437,248	993,101	(391,865)	32
437,248	985,625	(442,417)	33
3,136,900	9,038,994	9,481,411	34
$ 3,574,148	$ 10,024,619	$ 9,038,994	35

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS-ENDED JUNE 30, 2017 AND JUNE 30, 2016 (in thousands)

		2017	2016
	Cash flows from operating activities		
1	Change in net assets	$ 985,625	$ (442,417)
	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	(464,383)	(293,552)
3	Depreciation and amortization	271,339	253,481
4	Net realized and unrealized (gain)/loss on investments	(672,248)	202,286
5	Pension and postretirement changes	(64,213)	131,152
6	Change in value of interest rate swaps	(81,451)	89,965
7	Bond call premium	18,973	-
8	Loss on disposals of land, building, and equipment	7,470	4,181
9	Other adjustments	(10,825)	(22,101)
	Change in assets and liabilities		
10	Accounts receivable, net	11,626	10,546
11	Contributions receivable, net	83,476	107,521
12	Prepaid expenses and other assets	(4,703)	(5,751)
13	Accounts payable and accrued expenses	(1,700)	19,757
14	Deferred revenue and other liabilities	(5,423)	4,489
15	Obligations under split interest agreements	12,058	(10,992)
16	Deferred benefits	18,319	(2,316)
17	Net cash provided/(used) by operating activities	103,940	46,249
	Cash flows from investing activities		
18	Proceeds from the sale and maturities of investments	17,338,583	9,900,735
19	Purchase of investments	(17,181,628)	(9,723,130)
20	Acquisition of land, buildings, and equipment (net)	(453,370)	(450,016)
21	Student loans granted	(12,655)	(17,273)
22	Student loans repaid	14,974	13,090
23	Change in funds held for others, net of unrealized (gain)/loss on investments	(29,034)	(28,102)
24	Net cash used by investing activities	(323,130)	(304,696)
	Cash flows from financing activities		
	Proceeds from contributions for capital acquisitions, trusts and endowments		
25	Investment in endowments	395,753	207,687
26	Investment in physical plant	65,202	81,219
27	Investment subject to living trust agreements	3,428	4,646
28	Principal payments of bonds, notes payable and capital leases	(279,731)	(181,860)
29	Proceeds from issuance of bonds and notes payable	52,731	154,068
30	Bond call premium, bond premium and issuance costs	(18,973)	27,292
31	Government advances for student loans	(51)	(2,262)
32	Net cash provided by financing activities	218,359	290,790
33	Net change in cash and cash equivalents	(831)	32,343
34	Cash and cash equivalents, beginning of year	182,096	149,753
35	Cash and cash equivalents, end of year	$ 181,265	$ 182,096
	Supplemental disclosure of cash flow information		
36	Cash paid for interest	$ 61,497	$ 61,725
37	Increase/(decrease) in construction payables, non-cash activity	$ 7,334	$ 9,895
38	Assets acquired under capital leases	$ 64,267	$ 1,561
39	Gifts-in-kind	$ 10,250	$ 16,562

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. Described as the first truly American university because of its founders' revolutionary egalitarian and practical vision of higher education, the University is dedicated to its land-grant mission of outreach and public engagement. Cornell's community includes almost 23,400 students, nearly 4,000 faculty, and approximately 278,000 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, together with its physician organization referred to collectively as "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 ("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, Cornell Tech in New York City, 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 and contract colleges, 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 to 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 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.

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.

The fair value of Level 2 securities 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 securities 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 swap interest and change in fair value is recorded as 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 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 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 assets or the present value of 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 those 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 over time increasing amounts from the endowment 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 deciding 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, the 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 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, and/or any of the factors for prudent judgment described above. Total distributions, or spending, are presented as investment return, distributed, on the consolidated statement of activities, and 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 ("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 ("MPO") provides the management structure for the practice of medicine at the WCM academic medical center and the Physician Organization Network. In addition to conducting instructional and research activities, physician members generate clinical practice income from their professional services to patients. MPO revenue represents patient care and management service agreement fees. Expenses of the clinical practice, including physician compensation, administrative operations, and provision for uncollectible accounts, are reflected as University expenses.

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 April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-03–Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, to reduce the cost and complexity in presentation of debt issuance cost by aligning its presentation with the debt discount or premium. This update 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 effective date of this change for the University was the fiscal year ended June 30, 2017. Implementation of this standard update resulted in the reclassification of $7.5 million and $10.7 million from the prepaid expenses and other assets line to the bonds and notes payable line for the fiscal years ended June 30, 2017 and 2016, respectively. The unamortized issuance costs have been added to the unamortized premium and issuance costs line in the Summary of Bonds and Notes Payable table in Note 8.

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. If there is contractual right to take possession of software at any time during its hosting period without significant penalty, and it is feasible to either run the software on the University's hardware or contract with another party unrelated to the vendor to host the software, then the contract (or portion thereof) is accounted for as an acquisition of software. Otherwise, the contract is accounted for as a service contract (i.e., expensed). The effective date of this change for the University was the fiscal year ended June 30, 2017. The University performed an analysis of its cloud computing arrangements and determined that no contracts met the criteria as software acquisition under this new standard.

In March 2017, the FASB issued ASU 2017-07—Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Currently, net periodic costs are recorded as operating expenses and are comprised of: service costs, interest costs, expected return on assets, and amortized net loss/(gain). This accounting standard allows only the service costs to be presented as operating expenses; the other elements of the net periodic costs must be considered non-operating. The effective date of this change is the fiscal year ending June 30, 2019; however, the University has elected to adopt this standard for the fiscal year ended June 30, 2017. The impact of this presentation change is a reclassification of $17.6 million and $7.8 million, from operating to non-operating expense, for the years ended June 30, 2017 and 2016, respectively. The pension and postretirement changes line on the consolidated statement of activities includes both the change in funded status and the other components of net periodic costs. These two amounts are separately disclosed in the Summary of Obligations and Funded Status table in Note 6C.

In May 2014, the 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 is planning for the implementation of this new standard.

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. The University has begun its planning for implementation of this new standard.

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 related to 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 planning for the implementation of this new standard.

(dollars in thousands)

Q. Reclassifications

The University reclassified certain lines in the consolidated statement of financial position to conform to the current year presentation. These changes impacted the prepaid expenses and other assets, deferred revenue and other liabilities, and bonds and notes payable lines. In addition, changes impacting the consolidated statement of activities were made on the compensation and benefits and the pension and postretirement changes lines due to the early adoption of ASU 2017-07, and certain prior year expenses within the purchased services and supplies and general lines to conform to the current year presentation. Also, the impact of net settlements of the interest rate swaps was reclassified from interest expense to the swap interest and change in value of interest rate swaps line. Finally, revenue from WCM's agreement with New York-Presbyterian Hospital was reclassified from MPO revenue to the educational activities and other sales and services line.

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 the position 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

	2017	2016
Grants and contracts	$ 95,361	$ 85,386
New York Presbyterian Hospital and other affiliates	40,484	44,603
Patients (net of contractual allowances)	118,608	131,669
Reinsurance receivable	103,726	102,891
Student accounts	13,659	16,095
Other	60,339	59,329
Gross accounts receivable	$ 432,177	$ 439,973
Less: allowance for doubtful accounts	(39,742)	(35,912)
Net accounts receivable	$ 392,435	$ 404,061

The patient accounts receivable for medical services was comprised of the following at June 30, 2017 and 2016, respectively: commercial third parties 67.3 percent and 64.4 percent; federal/state government 16.7 percent and 15.3 percent; and patients 16.0 percent and 20.2 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 1.0 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:

(dollars in thousands)

SUMMARY OF CONTRIBUTIONS RECEIVABLE

	2017	2016
Less than one year	$ 372,009	$ 366,885
Between one and five years	413,276	561,661
More than five years	242,001	155,652
Gross contributions receivable	$ 1,027,286	$ 1,084,198
Less: unamortized discount	(96,517)	(67,371)
Less: allowance for uncollectible amounts	(27,923)	(30,505)
Net contributions receivable	$ 902,846	$ 986,322

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

EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE

	2017	2016
Program support	$ 469,049	$ 521,273
Capital purposes	184,457	289,949
Long-term support	249,340	175,100
Net contributions receivable	$ 902,846	$ 986,322

At June 30, 2017, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions and conditional promises with significant requirements, were $460,329.

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; the loan 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 Cornell University Bursar authorizes 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 general economic conditions are evaluated 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, 2017, the average default rate approximated 9.1 percent, with a rate of approximately 2.2 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.

(dollars in thousands)

SUMMARY OF STUDENT LOANS RECEIVABLE

	2017			2016
	Receivable	Allowance	Net receivable	Net receivable
Federal revolving loans	$ 49,365	$ (1,396)	$ 47,969	$ 51,714
Institutional loans	34,133	(2,891)	31,242	29,242
Total student loans receivable	$ 83,498	$ (4,287)	$ 79,211	$ 80,956

CHANGE IN STUDENT LOAN ALLOWANCE

	2017			2016
	Federal revolving	Institutional	Total allowance	Total allowance
Allowance at beginning of year	$ (2,360)	$ (2,501)	$ (4,861)	$ (4,647)
Current year provisions	964	(138)	826	34
Current year write-offs	-	(252)	(252)	(248)
Allowance at end of year	$ (1,396)	$ (2,891)	$ (4,287)	$ (4,861)

3. INVESTMENTS

A. General Information

The University's investments are overseen by the Investment Committee of the Board of Trustees. The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the world equity, fixed income, commodities, real estate, and private equity markets. Based on guidelines established by the Investment Committee, the University's Investment Office directs the investment of endowment and trust assets, certain working capital, and temporarily invested expendable funds.

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

INVESTMENT POOLS/CATEGORIES AT FAIR VALUE

	2017	2016
Long-term investments (LTI)		
Long-term investment pool (LTIP)	$ 6,363,271	$ 5,629,008
Other LTI	394,477	343,333
Total LTI	$ 6,757,748	$ 5,972,341
Intermediate-term	62	277,263
Separately invested and other assets	366,768	337,571
Total investments	$ 7,124,578	$ 6,587,175

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

	2017	2016
Interest and dividends, net of investment fees	$ 75,608	$ 77,473
Net realized gain/(loss)	324,262	210,733
Net unrealized gain/(loss)	361,048	(427,385)
Total investment return	$ 760,918	$ (139,179)

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:

(dollars in thousands)

INVESTMENTS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	Net asset value	**2017** Total	**2016** Total
Cash and cash equivalents	$ 332,132	$ 16,566	$ -	$ -	$ 348,698	$ 323,766
Derivatives	(342)	(1,918)	-	-	(2,260)	(3,527)
Equity						
Domestic equity	419,412	61,390	1,656	207,434	689,892	646,613
Foreign equity	697,320	33,534	6,744	506,785	1,244,383	886,137
Hedged equity	-	-	4,945	430,809	435,754	629,455
Private equity	-	-	47,822	1,332,736	1,380,558	1,173,988
Fixed income						
Asset backed fixed income	-	26,646	929	-	27,575	29,604
Corporate bonds	-	213,805	2,888	-	216,693	446,485
Equity partnership	-	74	-	459,107	459,181	478,517
International	15,585	76,629	-	-	92,214	110,355
Municipals	-	11,005	-	-	11,005	12,998
Mutual funds (non-equity)	-	19,921	-	-	19,921	22,603
Preferred/convertible	-	15,103	5,014	-	20,117	28,929
Other fixed income	-	105	-	-	105	5,737
US government	42,897	87,886	-	-	130,783	156,155
Marketable alternatives	-	152	-	878,830	878,982	722,079
Real assets	-	1,350	23,953	1,160,483	1,185,786	936,496
Receivable for investments sold	19,842	-	-	-	19,842	39,336
Payable for investments purchased	(58,727)	-	-	-	(58,727)	(83,011)
Other	-	-	24,076	-	24,076	24,460
Total investments	$ 1,468,119	$ 562,248	$ 118,027	$ 4,976,184	$ 7,124,578	$ 6,587,175
Securities not included in investment portfolio						
Cash and cash equivalents	$ 69,963	$ -	$ -	$ -	$ 69,963	$ 84,714

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.

(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	$ 337,326		$ 329,677	
	Growth	327,515		204,258	
	Venture capital	667,895		162,660	
	Total private equity	$ 1,332,736	1 to 10 years	$ 696,595	1 to 10 years
Real assets	Real estate	574,092		308,893	
	Natural resource	586,391		282,761	
	Total real assets	$ 1,160,483	1 to 10 years	$ 591,654	1 to 10 years
Fixed income	Distressed	214,158		76,194	
	Leveraged loans	48,215		6,250	
	Mezzanine	96,757		132,593	
	Multi-strategy	99,977		93,167	
	Total fixed income	$ 459,107	1 to 10 years	$ 308,204	1 to 10 years
Foreign equity	Emerging markets	123,757			
	Global equity	163,420			
	Foreign index	219,608			
	Total foreign equity	$ 506,785			
Hedged equity	Global equity long/short	250,006			
	U.S. equity long/short	180,803			
	Total hedged equity	$ 430,809			
Marketable alternatives	Event driven	153,223			
	Global macro	725,607			
	Total marketable alternatives	$ 878,830			
Domestic equity	Indexed	207,434			
	Total domestic equity	$ 207,434			
Total for alternative investments using NAV		$ 4,976,184		$ 1,596,453	

(dollars in thousands)

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	Rolling 2 year redemptions with 90 days notice***	50% of each new contribution has 2 year lock up and 50% has 3 year lock up
Foreign equity	Ranges between thrice-monthly redemption with 2 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 90 days notice	No lock up provisions
Marketable alternatives	Ranges between quarterly redemption with 65 days notice, to 33% redemption per year with 60 days notice	14.38% has remaining lock up for 12 months
Domestic equity	Daily redemption with 2 day 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.

*** 88.04% of NAV is in private equity structure, with no ability to be redeemed. Redemption provisions for the remaining 11.96% 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, 2017. There were no significant transfers into or out of Level 3 during the fiscal year ended June 30, 2017.

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITY

	Fair value at June 30, 2016	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2017
Equity							
Domestic equity	$ 3,416	$ -	$ (1,664)	$ -	$ (96)	$ -	$ 1,656
Foreign equity	17,857	(1,495)	2,337	2,485	(14,440)	-	6,744
Hedged equity	1,949	(6)	(256)	3,448	(190)	-	4,945
Private equity	42,058	-	5,418	500	(154)	-	47,822
Fixed income							
Asset backed fixed income	1,006	-	-	-	(77)	-	929
Corporate bonds	127	5	(239)	3,209	(214)	-	2,888
Preferred/convertible	4,959	-	55	-	-	-	5,014
Real assets	27,383	(172)	(1,648)	397	(2,007)	-	23,953
Other	24,460	297	(3,080)	2,399	-	-	24,076
Total level 3 investments	$ 123,215	$ (1,371)	$ 923	$ 12,438	$ (17,178)	$ -	$ 118,027

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.

(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	$ 1,656	Start-up valuation		
Foreign equity	6,744	Third-party pricing		
Hedged equity	4,945	Third-party pricing		
Private equity	18,016	Discounted cash flow/market comparable	Discount rate	4.4% - 12.1% (5.2%)
			Discount for lack of marketability	15% - 20% (19.5%)
			Earnings multiple	7.4x
			Revenue multiple	1.7x
	3,745	Start-up valuation		
	26,061	Third-party pricing		
Fixed income				
Asset backed fixed	929	Discounted cash flow	Discount rate	2.6% - 3.7% (3.4%)
Corporate bonds	2,888	Third-party pricing		
Preferred/convertible	5,014	Market comparable	Dividend multiple	17.0x - 21.2x (20.4x)
Real assets	12,720	Cap rate valuation model	Capitalization rate	4.5% - 6.9% (5.3%)
	3,020	Discounted cash flow	Discount rate	15%
			Years to maturity	12
	1,176	Sales comparison approach	Recent transactions	
	4,700	Start-up valuation		
	2,337	Third-party pricing		
Other	8,252	Discounted cash flow	Discount rate	2.1% - 5.3% (2.6%)
			Years to maturity	5 - 14 (8)
	1,170	Start-up valuation		
	14,654	Third-party pricing		
Total Level 3 investments	$ 118,027			

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.

(dollars in thousands)

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 the terms of certain option contracts on interest rate swaps, the University is obligated to make future premium payments. At June 30, 2017 and 2016, the University had unfunded premium payment commitments of $4,097 and $5,411 respectively. The University's premium payment schedule is as follows: $1,025 for the year ending June 30, 2018; and $1,024 annually for the years ending June 30, 2019, 2020 and 2021.

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

FAIR VALUE OF DERIVATIVE HOLDINGS IN STATEMENT OF FINANCIAL POSITION

		2017			2016		
Location	Derivative type	Notional amount	# of Contracts	Fair value	Notional amount	# of Contracts	Fair value
Investments							
	Foreign currency	$ -	43	$ (341)	$ -	35	$ 252
	Synthetic	(3,464)	2	(1)	(3,458)	1	(95)
	Interest rate	301,004	3	(1,918)	444,703	4	(3,684)
Total fair value		$ 297,540	48	$ (2,260)	$ 441,245	40	$ (3,527)

(dollars in thousands)

4. LAND, BUILDINGS, AND EQUIPMENT

A. General Information
Land, buildings, and equipment are detailed as follows:

LAND, BUILDINGS, AND EQUIPMENT

	Book value at June 30, 2017	Book value at June 30, 2016
Land, buildings, and equipment	$ 5,745,468	$ 5,384,208
Furniture, equipment, books, and collections	1,310,794	1,236,420
Capital Leases	68,708	4,452
Construction in progress	488,652	489,898
Total before accumulated depreciation	$ 7,613,622	$ 7,114,978
Accumulated depreciation	(3,356,815)	(3,105,693)
Net land, buildings, and equipment	$ 4,256,807	$ 4,009,285

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 $742,876 and $712,553 at June 30, 2017 and 2016, 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 $2,438 and $2,048 at June 30, 2017 and 2016, respectively.

The future commitments on capital projects in progress, excluding projects funded by New York State, are approximately $100,229 at June 30, 2017.

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 toward 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 is considered to be a prepaid cost of the ground lease, and will be amortized over the term of the lease. At June 30, 2017, the unamortized amount of the demolition costs is $53,458.

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 equity interest of 86.59 percent and controlling financial interest and, therefore, consolidates the joint venture. This consolidation resulted in $130,786 included in land, buildings, and equipment attributed to the joint venture at June 30, 2017. In addition, Hudson Cornell Tech LLC, a subsidiary of Hudson Cornell Residential JV LLC, held bonds and notes payable related the construction of the residential building (the House) (see Note 8A). Unrestricted net assets of $5,625 and $5,754, representing the minority interest of H/R Tech Residential LLC, is also consolidated into the University's net assets at June 30, 2017 and 2016, respectively. Operating activity is immaterial in the current fiscal year.

The Bridge is a condominium association comprised of a "Cornell Unit" and one or more other units initially owned by the developer and/or its affiliates. The University has entered into a lease agreement for the Cornell Unit for a term of thirty-five years. The capital lease is reflected in the consolidated statement of financial position as increase on the land, buildings, and equipment line of $64,212 as of June 30, 2017, with a corresponding liability presented as obligations under capital leases. As part of the lease agreement, the University has also made a commitment in the form of gap rent for the developer's unit(s) in amount not to exceed $2,982 annually, or $44,731 over twenty years. The annual amount gap rent is adjusted based upon the occupancy level in the developer's unit(s). During the year ended June 30, 2017, no payment was made for gap rent.

(dollars in thousands)

Cornell Tech met its first milestone when faculty, staff, and researchers moved into the first academic building (Bloomberg Center) on Roosevelt Island during the summer of 2017, and students, faculty, and researchers moved into the House in advance of the fall semester. In addition, programs and operations in both the Bloomberg Center and the corporate co-location building ("The Bridge") are slated to begin during the 2017-2018 academic year, rounding out the University's operational commitments.

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

	2017 Total	Valuation methodologies	Unobservable inputs	Range (weighted average)
Funds held in trust by others				
Remainder	$ 50,067	Present value calculation	Discount rate	3.20%
			Years to maturity	0-56 (13)
Lead and perpetual	60,850	Discounted cash flow	Discount rate	4.30%
Total funds held in trust by others	$ 110,917			
Obligations under split interest agreements	$ 133,459	Discounted cash flow	Discount rate	3.60%
			Years to maturity	0-76 (16)

SUMMARY OF LEVEL 3 SPLIT INTEREST AGREEMENT ACTIVITY

	Fair value at June 30, 2016	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2017
Funds held in trust by others							
Remainder	$ 64,650	$ 1,208	$ 488	$ 2,280	$ (18,559)	$ -	$ 50,067
Lead and perpetual	60,310	355	185	-	-	-	60,850
Total funds held in trust by others	$ 124,960	$ 1,563	$ 673	$ 2,280	$ (18,559)	$ -	$ 110,917
Obligations under split interest agreements	$ 135,444	$ -	$ (1,985)	$ -	$ -	$ -	$ 133,459

(dollars in thousands)

6. DEFERRED BENEFITS

A. General Information

Accrued employee benefit obligations as of June 30 include:

SUMMARY OF DEFERRED BENEFITS

	2017	2016
Postemployment benefits	$ 27,526	$ 27,694
Pension and other postretirement benefits	395,243	445,623
Other deferred benefits	187,747	183,093
Total deferred benefits	$ 610,516	$ 656,410

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 reported. Additionally, the University 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 years-of-service calculation to determine the 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 contributions of the Endowed Ithaca and WCM plans for the fiscal years ended June 30, 2017 and 2016 amounted to $111,336 and $103,083 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.

Additionally, the University provides health and life insurance benefits for eligible pre-Medicare and Medicare-eligible retired employees and their dependents, based on the attainment of a set of defined service and age requirements. The cost of providing these benefits is accrued 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:

(dollars in thousands)

SUMMARY OF OBLIGATIONS AND FUNDED STATUS

	Pension benefits		Other postretirement	
	2017	2016	2017	2016
Change in plan assets				
Fair value of plan assets at beginning of year	$ 96,109	$ 92,405	$ 257,704	$ 263,208
Actual return on plan assets	13,147	1,963	38,434	(6,181)
Employer contribution	6,000	5,500	23,052	18,887
Benefits paid	(3,726)	(3,759)	(18,052)	(18,210)
Fair value of plan assets at end of year	$ 111,530	$ 96,109	$ 301,138	$ 257,704
Change in benefit obligation				
Benefit obligation at beginning of year	$ 160,601	$ 121,274	$ 638,835	$ 538,217
Service cost (benefits earned during the period)	9,509	7,199	30,535	24,731
Interest cost	6,758	6,190	24,734	25,150
Actuarial (gain)/loss	2,728	29,697	(46,851)	65,896
Gross benefits paid	(3,726)	(3,759)	(16,614)	(16,497)
Less: federal subsidy on benefits paid	-	-	1,402	1,338
Projected benefit obligation at end of year	$ 175,870	$ 160,601	$ 632,041	$ 638,835
Funded status	$ (64,340)	$ (64,492)	$ (330,903)	$ (381,131)
Amounts recognized in the consolidated statement of financial position	$ (64,340)	$ (64,492)	$ (330,903)	$ (381,131)
Amounts recorded in unrestricted net assets not yet amortized as components of net periodic benefit cost				
Prior service cost	$ (416)	$ (508)	$ -	$ -
Net actuarial (gain)/loss	44,933	52,307	97,315	171,844
Amount recognized as reduction in unrestricted net assets	$ 44,517	$ 51,799	$ 97,315	$ 171,844
Amounts recorded in nonoperating pension and postretirement changes				
Change in amounts not yet amortized as components of net periodic benefit cost	$ 7,282	$ (33,584)	$ 74,529	$ (89,758)
Other components of net periodic benefit cost	(3,621)	(339)	(13,977)	(7,471)
Total nonoperating pension and postretirement changes	$ 3,661	$ (33,923)	$ 60,552	$ (97,229)

The accumulated benefit obligation for the pension plans was $150,761 and $136,219 at June 30, 2017 and 2016, 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	
	2017	2016	2017	2016
Service cost (benefits earned during the period)	$ 9,509	$ 7,199	$ 30,535	$ 24,731
Interest cost	6,758	6,190	24,734	25,150
Expected return on plan assets	(6,621)	(6,552)	(18,811)	(19,223)
Amortization of prior service cost	(92)	(92)	-	-
Amortization of net (gain)/loss	3,576	793	8,054	1,543
Net periodic benefit cost	$ 13,130	$ 7,538	$ 44,512	$ 32,201

(dollars in thousands)

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, 2018 are estimated as follows:

ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST

	Pension benefits	Other postretirement
Prior service cost	$ (92)	$ -
Net actuarial (gain)/loss	2,453	3,204
Total	$ 2,361	$ 3,204

E. Actuarial Assumptions

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

SUMMARY OF ACTUARIAL ASSUMPTIONS

	Pension benefits		Other postretirement	
	2017	2016	2017	2016
Used to calculate benefit obligations at June 30				
Discount rate	4.04%	3.94%	3.97% / 3.96%	3.83% / 3.79%
Rate of compensation increase	3.00%	3.00%		
Used to calculate net periodic cost at July 1				
Discount rate	3.94%	4.80%	3.83% / 3.79%	4.67% / 4.61%
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	6.00%	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 $150,992 and the annual service and interest cost by $15,545. Decreasing the health care cost trend rate by one percent in each future year would decrease the benefit obligation by $102,830 and the annual service and interest cost by $11,025.

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") is chaired by the Vice President and Chief Human Resources Officer, with committee members selected from across multiple disciplines at the University. Its primary purpose is to assist the University in fulfilling its fiduciary responsibilities by providing guidance and oversight for the University's retirement plans, including oversight of the custodial bank. The RPOC, in accordance with an Investment Policy Statement, and in conjunction with its outside consultant, regularly reviews the investment strategies, along with evolving institutional objectives, and will make recommendations regarding possible changes to asset allocation and investment managers accordingly.

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

(dollars in thousands)

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, 2017 are similar to the prior fiscal year: 7.4 percent on equity securities, 3.6 percent on fixed income securities, and 5.5 percent on real estate, compared to 7.2 percent, 4.4 percent and 5.5 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 2017	Pension benefits 2016	Other postretirement 2017	Other postretirement 2016
Percentage of plan assets					
Equity securities	39-85%	65%	62%	77%	72%
Fixed income securities	15-55%	29%	32%	23%	28%
Real estate	0-5%	6%	6%	0%	0%
Total		100%	100%	100%	100%

PENSION PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2017 Total	2016 Total
Cash and cash equivalents					
Money market	$ 342	$ -	$ -	$ 342	$ 287
Equity securities					
U.S. small cap	-	7,629	-	7,629	5,695
U.S. large cap	-	32,008	-	32,008	28,677
U.S. multi cap	-	6,798	-	6,798	5,757
U.S. REITS	-	2,695	-	2,695	2,411
Emerging markets	-	8,053	-	8,053	4,795
International equity	-	15,371	-	15,371	11,836
Fixed income securities					
U.S. high yield bonds	-	6,140	-	6,140	4,846
Corporate bonds	-	20,557	-	20,557	20,093
Mortgage-backed securities	-	30	2,985	3,015	5,009
International fixed income	-	2,176	-	2,176	1,041
Other types of investments					
Real estate	-	-	6,746	6,746	5,736
Receivable for investments sold	-	-	-	-	769
Payable for investments purchased	-	-	-	-	(843)
Total assets	$ 342	$ 101,457	$ 9,731	$ 111,530	$ 96,109

SUMMARY OF LEVEL 3 PENSION PLAN ACTIVITY

	Fair value, June 30, 2016	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value, June 30, 2017
Mortgage-backed securities	$ 2,627	$ -	$ 51	$ 307	$ -	$ -	$ 2,985
Real estate	5,736	-	209	801	-	-	6,746
Total Level 3 assets	$ 8,363	$ -	$ 260	$ 1,108	$ -	$ -	$ 9,731

(dollars in thousands)

POSTRETIREMENT PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2017 Total	2016 Total
Cash and cash equivalents					
Money market	$ 4,816	$ -	$ -	$ 4,816	$ 2,428
Equity securities					
U.S. small cap	-	33,086	-	33,086	27,058
U.S. large cap	-	92,696	-	92,696	80,380
Emerging markets	-	36,549	-	36,549	26,311
International equity	-	61,415	-	61,415	43,750
U.S. REITS	-	7,564	-	7,564	7,160
Fixed income securities					
U.S. high yield bonds	-	18,710	-	18,710	11,528
Corporate bonds	-	40,199	-	40,199	55,067
Emerging markets debt	-	6,087	-	6,087	4,017
Receivable for investments sold	2,125	-	-	2,125	1,425
Payable for investments purchased	(2,109)	-	-	(2,109)	(1,420)
Total assets	$ 4,832	$ 296,306	$ -	$ 301,138	$ 257,704

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

		Other postretirement	
	Pension benefits	Employer paid	Government subsidy
University contributions			
2018	$ 6,000	$ 23,077	n/a
Future benefit payments			
2018	5,989	19,347	1,773
2019	5,969	21,324	1,955
2020	6,474	23,191	2,152
2021	7,299	24,952	2,354
2022	7,678	26,500	2,572
2023-2027	46,112	161,680	16,828

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 amount of direct payments made by the state on behalf of Contract College employees 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, 2017 and 2016 were $16,834 and $18,192, respectively, and were included in operating expenses.

7. FUNDS HELD FOR OTHERS

The University, in limited instances, invests funds on behalf of related parties. Independent trustees are responsible for the designation of income distribution. The value of the funds included on the investment line in the consolidated statement of financial position was $259,275 and $268,421 for the fiscal years ended June 30, 2017 and 2016, respectively. The University recognizes an offsetting liability for funds held for others, with one adjustment described below.

(dollars in thousands)

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 $174,655 and $162,153 for the fiscal years ended June 30, 2017 and 2016, respectively. Because WCM holds a significant beneficial interest in the assets of the Center Fund, the liability is reduced by $122,182 and $115,356 for the fiscal years ended June 30, 2017 and 2016, 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 2017, BTI elected to withdraw its assets from the University's long-term investment portfolio. The withdrawal was completed in July 2017. The fair value of BTI investments was $44,881 and $68,824 as of June 30, 2017 and 2016, 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 are reported at carrying value, which is the par amount net of unamortized issuance costs, premiums, and discounts. Bonds and notes payable as of June 30 are summarized as follows:

SUMMARY OF BONDS AND NOTES PAYABLE

	2017	2016	Interest rates	Final maturity
Dormitory Authority of the State of New York (DASNY)				
Revenue Bond Series				
1990B-fixed rate	$ 31,150	$ 34,275	4.50 to 5.00%	2025
2000A-variable rate/monthly	37,875	40,300	0.78 to 1.29	2029
2000B-variable rate/monthly	52,805	55,720	0.78 to 1.29	2030
2004A&B-variable rate/weekly	65,850	68,750	0.40 to 0.91	2033
2008B&C-fixed rate	109,210	112,235	5.00	2037
2009A-fixed rate	268,155	274,950	4.00 to 5.00	2039
2010A-fixed rate	285,000	285,000	4.00 to 5.00	2040
2016A-fixed rate	121,920	125,850	2.00 to 5.00	2035
Tax-exempt commercial paper	52,890	52,890	0.46 to 0.93	2037
Tompkins County Industrial Development Agency (TCIDA)				
2002A-variable rate/monthly	32,245	34,045	0.78 to 1.29	2030
2008A-fixed rate	59,155	60,885	3.00 to 5.00	2037
Empire State Development	1,500	1,625	-	2029
2009 Taxable-fixed rate	-	250,000	5.45	2017
2007A Taxable commercial paper	83,890	83,890	0.50 to 1.25	-
Hudson Cornell Residential JV LLC	80,949	28,218	2.72 to 3.48	2019
Other	6,271	6,502	4.90 to 6.63	2039
Outstanding bonds and notes payable	$ 1,288,865	$ 1,515,135		
Unamortized premium and issuance costs	43,396	52,233		
Total bonds and notes payable	$ 1,332,261	$ 1,567,368		

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, this bond series is a general obligation of the University and is secured by a pledge of revenue. The University has not granted a pledge of revenue on other debt.

(dollars in thousands)

During the fiscal year ended June 30, 2017, the University redeemed Series 2009 taxable bonds with a maturity date in January 2019. The University incurred a $18,973 make-whole call premium on an early redemption, reported as non-operating other in the consolidated statement of activities. 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. Additionally, the University 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. The University has consolidated $80,949 and $28,218 of debt attributable to the subsidiary at June 30, 2017 and 2016, respectively. The loan is secured by a security interest in the building and equipment.

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
2018	$ 30,955	$ 41,205	$ 72,160
2019	113,304	40,321	153,625
2020	33,714	36,758	70,472
2021	35,266	41,991	77,257
2022	36,949	40,653	77,602
Thereafter	1,038,677	444,749	1,483,426
Total	$ 1,288,865	$ 645,677	$ 1,934,542

The University estimates future interest payments on variable-rate debt based on the Securities Industry and Financial Markets Association (SIFMA) rate for tax-exempt debt and the London Interbank Offered Rates (LIBOR) 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. At June 30, 2017 and 2016, the University did not have collateral on deposit with any counterparty.

The University's interest rate swaps are valued as of June 30 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 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, 2017, 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 the swap agreements are recorded as adjustments to the swap interest and change in value of interest rate swaps line in the consolidated statement of activities. In all agreements in effect at June 30, 2017, the counterparty pays a variable interest rate equal to a percentage of the one-month LIBOR.

(dollars in thousands)

The following table provides detailed information on the interest rate swaps at June 30, 2017, with comparative fair values for June 30, 2016. 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	2017 Level 2 fair value	2016 Level 2 fair value
Swap interest and change in value of interest rate swaps						
	$ 34,045	4.52	July 1, 2030	LIBOR	$ (6,939)	$ (9,581)
	89,892	3.92	July 1, 2038	LIBOR	(21,289)	(29,407)
	275,000	3.88	July 1, 2040	LIBOR	(95,715)	(129,286)
	192,500	3.48	July 1, 2041	LIBOR	(40,574)	(58,169)
	193,829	3.77	July 1, 2044	LIBOR	(50,735)	(70,260)
Total fair value					$ (215,252)	$ (296,703)

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 will 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 University will have a current obligation to purchase the bonds tendered.

D. Lines of Credit

The University maintains two $100 million lines of credit with annual expiration dates of January 31 and April 1. As of June 30, 2017 and 2016, the University had not borrowed against either line 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.

9. 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. The University has also entered into capital leases for buildings; use of capital leases for equipment is immaterial. Total operating lease expenses were $35,829 and $31,284 for the fiscal years ended June 30, 2017 and 2016, respectively. The future annual minimum lease payments in the following table are payments under operating leases expiring at various dates through June 30, 2068, and principal payments under capital leases expiring at various dates through September 30, 2051.

ANNUAL MINIMUM LEASE PAYMENTS

Year	Capital	Operating
2018	$ 5,216	$ 42,851
2019	4,829	43,355
2020	4,250	42,339
2021	3,803	41,798
2022	3,503	38,154
Thereafter	46,241	436,586
Total minimum lease payments	$ 67,842	$ 645,083

(dollars in thousands)

10. FUNCTIONAL EXPENSES AND STUDENT AID

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

FUNCTIONAL EXPENSES

	2017	2016
Instruction	$ 867,208	$ 823,090
Research	598,089	594,050
Public service	128,583	123,850
Academic support	292,272	274,152
Student services	173,896	167,401
Medical services	1,133,964	1,063,601
Institutional support	569,532	548,525
Enterprises and subsidiaries	257,788	265,097
Total expenses	$ 4,021,332	$ 3,859,766

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 $150,379 and $177,241 for the fiscal years ended June 30, 2017 and 2016, 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 $45,262 and $46,156 for the fiscal years ended June 30, 2017 and 2016, 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	2017 Total	2016 Total
Endowment					
True endowment	$ (32,345)	$ 1,557,031	$ 3,030,208	$ 4,554,894	$ 3,952,559
Funds functioning as endowment (FFE)	1,427,824	352,801	-	1,780,625	1,631,638
Total true endowment and FFE	$ 1,395,479	$ 1,909,832	$ 3,030,208	$ 6,335,519	$ 5,584,197
Funds held by others, perpetual	-	-	180,925	180,925	173,525
Total University endowment	$ 1,395,479	$ 1,909,832	$ 3,211,133	$ 6,516,444	$ 5,757,722
Other net assets					
Operations	(306,192)	445,858	-	139,666	118,004
Student loans	5,302	113	48,361	53,776	52,210
Facilities and equipment	2,746,192	225,863	-	2,972,055	2,809,746
Split interest agreements	-	65,809	41,922	107,731	95,314
Funds held by others, other than perpetual	-	28,965	23,392	52,357	67,125
Contributions receivable, net	-	653,506	249,340	902,846	986,322
Long-term accruals	(720,256)	-	-	(720,256)	(847,449)
Total net assets	$ 3,120,525	$ 3,329,946	$ 3,574,148	$10,024,619	$ 9,038,994

(dollars in thousands)

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

	2017	2016
Academic programs and research	$ 1,840,470	$ 1,511,788
Financial aid	1,601,140	1,463,388
Professorships	1,362,084	1,151,134
General purpose and other	1,249,398	1,202,771
Facilities support	103,893	97,691
CU Foundation	178,534	157,425
Total true endowment and FFE, end of year	$ 6,335,519	$ 5,584,197

Of the endowment assets held at the University, 96 percent was invested in the LTIP at June 30, 2017 and 2016. 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, 2017, 713 of 7,085 true endowment funds invested in the LTIP had a total historic dollar value of $467,714 and a fair value of $435,369, resulting in these endowments being underwater by a total of $32,345. 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	2017 Total	2016 Total
True endowment and FFE, beginning of year	$ 1,169,610	$ 1,733,156	$ 2,681,431	$ 5,584,197	$ 5,883,517
Investment return					
Net investment income	10,528	30,436	770	41,734	44,230
Net realized and unrealized gain/(loss)	203,032	437,714	740	641,486	(225,517)
Total investment return	$ 213,560	$ 468,150	$ 1,510	$ 683,220	$ (181,287)
New gifts	936	36,699	349,612	387,247	184,454
Amounts appropriated for expenditure/reinvestment	(83,175)	(236,642)	2,763	(317,054)	(295,331)
Other changes and reclassifications	94,548	(91,531)	(5,108)	(2,091)	(7,156)
Total true endowment and FFE, end of year	$ 1,395,479	$ 1,909,832	$ 3,030,208	$ 6,335,519	$ 5,584,197

(dollars in thousands)

12. SELF-INSURANCE

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

A. Medical Malpractice

The University 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. MCIC is owned by the University, New York-Presbyterian Hospital, and four other institutions of higher education and their respective teaching hospitals. 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 $151,006 and $150,096 at June 30, 2017 and 2016, respectively, as other liabilities in the consolidated statement of financial position. In addition, WCM maintains a reinsurance program with MCIC with anticipated recoveries of $103,726 and $102,891, respectively, recorded as accounts receivable (Note 2A).

B. Student Health Plan

The University has established a self-funded student health plan under Section 1124 of the New York State Insurance Law (“NYSIL”). The Student Health Plan (“SHP”) provides health insurance coverage to students at the University’s Ithaca-based campuses. The table below presents a summary of SHP operations occurring during the University’s fiscal years ended June 30.

SUMMARY OF STUDENT HEALTH PLAN OPERATIONS

	July 1 - August 16 (prior plan year)	August 17 - June 30 (current plan year)	**2017** Fiscal year total	July 1 - August 16 (prior plan year)	August 17 - June 30 (current plan year)	**2016** Fiscal year total
Total premium revenue	$ 3,693	$ 26,965	$ 30,658	$ 3,652	$ 24,753	$ 28,405
Expenses						
Medical and prescription drug expense	2,976	14,264	17,240	2,843	14,348	17,191
Health center capitation	786	5,299	6,085	463	5,088	5,551
Administrative fees	82	2,387	2,469	358	2,626	2,984
Total expenses	$ 3,844	$ 21,950	$ 25,794	$ 3,664	$ 22,062	$ 25,726
Net income from health plan operations	$ (151)	$ 5,015	$ 4,864	$ (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 $42,897 and $65,622 in its investment portfolio as of June 30, 2017 and 2016 respectively (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 years ended June 30 are presented below.

(dollars in thousands)

SUMMARY OF STUDENT HEALTH PLAN UNEARNED PREMIUMS

	2017 Unearned premiums		2016 Unearned premiums	
	2015-2016 plan year	2016-2017 plan year	2014-2015 plan year	2015-2016 plan year
Balance as of July 1	$ 3,625	$ -	$ 3,412	$ -
Balance as of June 30	-	2,270	-	3,625
Net change	$ (3,625)	$ 2,270	$ (3,412)	$ 3,625

SUMMARY OF STUDENT HEALTH PLAN RESERVES

	IBNR/RBNP reserve		Contingency reserve	
	2017	2016	2017	2016
Balance as of July 1	$ 2,500	$ 2,409	$ 1,547	$ 1,374
Balance as of June 30	3,203	2,500	1,723	1,547
Net change	$ 703	$ 91	$ 176	$ 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 25, 2017, the date on which the consolidated financial statements were issued and determined no material impact on the University's consolidated financial statements.

UNIVERSITY ADMINISTRATION

Martha E. Pollack, *President*

Michael I. Kotlikoff, *Provost*

Augustine M.K. Choi, *Provost for Medical Affairs and Stephen and Suzanne Weiss Dean of Weill Cornell Medicine*

Joanne M. DeStefano, *Executive Vice President and Chief Financial Officer*

Madelyn F. Wessel, *University Counsel and Secretary of the Corporation*

Judith A. Appleton, *Vice Provost*

Robert A. Buhrman, *Senior Vice Provost for Research and Vice President for Technology Transfer, Intellectual Property and Research Policy*

Stephen M. Cohen, *Executive Vice Provost for Weill Cornell Medicine*

Gerald L. Hector, *Vice President for Financial Affairs*

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*

Kenneth M. Miranda, *Chief Investment Officer*

Glen C. Mueller, *University Auditor*

Mary G. Opperman, *Vice President and Chief Human Resources Officer*

John A. Siliciano, *Deputy Provost*

William E. Sitzabee, *Interim Vice President for Infrastructure, Properties and Planning*

Laura M. Spitz, *Vice Provost for International Affairs*

Rebecca J. Stoltzfus, *Vice Provost for Undergraduate Education*

Paul J. Streeter, *Vice President for Budget and Planning*

Charles F. Van Loan, *Dean of Faculty*

Frederick M. Van Sickle, *Vice President for Alumni Affairs and Development*

ACADEMIC UNITS

Charles H. Dyson School of Applied Economics and Management, Edward W. McLaughlin, *David J. Nolan Interim Dean*

College of Agriculture and Life Sciences Kathryn J. Boor, *Ronald P. Lynch Dean*

College of Architecture, Art, and Planning Kent Kleinman, *Gale and Ira Drukier Dean*

College of Arts and Sciences Gretchen Ritter, *Harold Tanner Dean*

College of Engineering Lance R. Collins, *Joseph Silbert Dean*

College of Human Ecology Alan D. Mathios, *Rebecca Q. and James C. Morgan Dean*

College of Veterinary Medicine Lorin D. Warnick, *Austin O. Hooey Dean*

Cornell SC Johnson College of Business, Soumitra Dutta, *Dean*

Cornell Tech Daniel P. Huttenlocher, *Dean*

Cornell University Library Vacant, *Carl A. Kroch University Librarian*

Faculty of Computing and Information Science, J. Gregory Morrisett, *Dean*

Graduate School Barbara A. Knuth, *Dean*

Law School Eduardo M. Peñalver, *Allan R. Tessler Dean*

School of Continuing Education and Summer Sessions, Glenn C. Altschuler, *Dean*

School of Hotel Administration Kate Walsh, *Interim Dean*

School of Industrial and Labor Relations Kevin F. Hallock, *Kenneth F. Kahn Dean*

Samuel Curtis Johnson Graduate School of Management, Mark W. Nelson, *Anne and Elmer Lindseth Dean*

Weill Cornell Graduate School of Medical Sciences, Gary Koretzky, *Dean and Senior Associate Dean for Research at Weill Cornell Medicine*

Weill Cornell Medical College Michael G. Stewart, *Vice Dean and the E. Darracott Vaughan, Jr. M.D. Senior Associate Dean for Clinical Affairs*

Weill Cornell Medical College in Qatar Javaid I. Sheikh, *Dean*

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