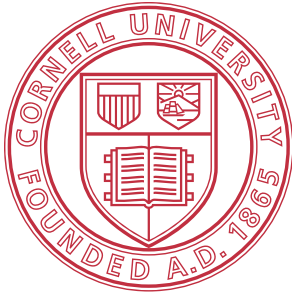


# 2017-2018 Financial Report



Cornell University





# Cornell University 2017-2018 Financial Report

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

## CORNELL UNIVERSITY HIGHLIGHTS

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>
<b>Fall enrollment (excluding in absentia)</b>			
Undergraduate	14,907	14,566	14,315
Graduate	6,306	5,965	5,879
Professional	2,910	2,857	2,746
Total fall enrollment	<u>24,123</u>	<u>23,388</u>	<u>22,940</u>
<b>Degrees granted</b>			
Baccalaureate degrees	3,721	3,646	3,758
Masters degrees	2,799	2,792	2,598
Ph.D. degrees	596	555	555
Other doctoral degrees (J.D., M.D., D.V.M.)	384	403	386
Total degrees granted	<u>7,500</u>	<u>7,396</u>	<u>7,297</u>
<b>Tuition rates</b>			
Endowed Ithaca	\$ 52,612	\$ 50,712	\$ 48,880
Contract Colleges			
Resident	\$ 35,242	\$ 33,968	\$ 32,740
Nonresident	\$ 52,612	\$ 50,712	\$ 48,880
Medical College	\$ 55,130	\$ 52,500	\$ 50,950
Business	\$ 63,894	\$ 61,584	\$ 59,532
Law	\$ 63,242	\$ 61,400	\$ 59,950
Veterinary Medicine	\$ 34,750	\$ 33,732	\$ 32,750
Volumes in library (in thousands)	8,275	8,184	8,087
<b>Academic workforce</b>			
Full-time employees			
Faculty	4,012	3,964	3,842
Nonfaculty	890	881	882
Part-time employees			
Faculty	297	299	285
Nonfaculty	130	143 *	192
Total academic workforce	<u>5,329</u>	<u>5,287</u>	<u>5,201</u>
<b>Nonacademic workforce</b>			
Full-time employees	11,589	11,225	10,866
Part-time employees	580	611	575
Total nonacademic workforce	<u>12,169</u>	<u>11,836</u>	<u>11,441</u>
<b>University endowment</b>			
Market value of total university endowment (in millions)	\$ 6,871.5	\$ 6,516.4	\$ 5,757.7
Unit value of Long Term Investment Pool	\$ 58.27	\$ 55.51	\$ 52.32
Gifts received, excluding pledges (in millions)	\$ 411.8	\$ 535.9	\$ 512.0
New York State appropriations through SUNY (in millions)	\$ 130.7	\$ 132.0	\$ 131.5
Medical Physician Organization fees (in millions)	\$ 1,103.3	\$ 1,050.4	\$ 982.4 *
<b>Sponsored research volume (in millions)</b>			
Direct expenditures	\$ 543.8	\$ 502.0 *	\$ 496.3
Indirect-cost recovery	\$ 158.8	\$ 146.2 *	\$ 138.0
<b>Selected land, buildings, and equipment items &amp; related debt (in millions)</b>			
Additions to land, buildings, and equipment	\$ 359.0	\$ 545.0	\$ 519.2 *
Cost of land, buildings, and equipment	\$ 7,940.0	\$ 7,613.6	\$ 7,115.0
Outstanding bonds, mortgages, notes payable and capital leases	\$ 1,395.5	\$ 1,356.7	\$ 1,519.5 *

\* Restated from previously reported number.



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

I am pleased to present the Cornell University Annual Financial Report for fiscal year 2018, which presents a snapshot of an institution that continues to be strong, both academically and fiscally. Operating budgets remain balanced, despite showing an operating loss on our financial statement; this is mainly due to the increased depreciation on the new construction at our New York City campuses.

The University proudly opened its new Cornell Tech campus in the fall of 2017. Located on Roosevelt Island in NYC, Cornell Tech is a graduate school focused on the tech-oriented, digitally driven future. Dedication ceremonies, which took place in September, brought together luminaries and Cornell's senior administrators to celebrate Ezra Cornell's vision and the University's new campus. Former New York City Mayor Michael Bloomberg, New York City Mayor Bill de Blasio, and New York State Governor Andrew Cuomo were all in attendance.

There continues to be an extraordinary demand for a Cornell education. Over 51,000 prospective students applied for 3,325 undergraduate places in the Class of 2022. Cornell remains very selective, with a 10.6 percent acceptance rate for fall 2018 freshman applicants, compared to 12.7 percent one year ago, and maintains a steadily increasing matriculation yield rate, which reached 61 percent this year, 4.4 percent higher than in 2017. Cornell's geographical profile remains diverse and global, with over 11.5 percent of its undergraduate students coming from outside the United States, and 30.9 percent from New York State as part of the University's commitment to its land-grant mission.

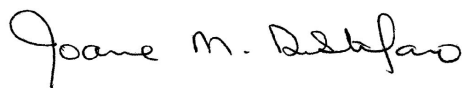
University operating revenues have grown by 31 percent over the past five years, from \$3.2 billion to almost \$4.3 billion. The largest growth area has been the Medical Physician Organization at Weill Cornell Medicine, which now comprises over 26 percent of the University's total operating revenue (compared to 23 percent in fiscal year 2013).

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. In fiscal year 2018, the University generated over \$655 million in grant and contract revenues, comprising 15 percent of the University's total operating revenues.

Operating costs at Cornell are less dependent on endowment payout than at other highly endowed institutions, mostly due to Cornell's revenue diversity; only approximately 8 percent of the University's operating costs were funded from its endowment payout in fiscal year 2018. University operating expenses increased by \$250 million, or 6 percent, from \$4.0 billion to over \$4.2 billion this past year, mainly as a result of the 5 percent operating expense increase in the Medical Physician Organization. This year, the University experienced an overall operating loss of \$79 million.

As of June 30, 2018, Cornell had \$1.3 billion of bonds and notes outstanding, including \$136 million of outstanding commercial paper. The University has a notional amount of \$773 million in interest-rate swaps, whose fair value is determined by an external swap consultant. Change in valuation between June 30, 2017 and June 30, 2018 decreased the mark-to-market liability by \$45 million, due to the change in interest rates over this period.

In summary, the results of fiscal year 2018 are in line with the University's planned growth in its clinical practice and the establishment of its new Cornell Tech campus. As shown by the growth in net assets over the past two years, Cornell continues to prove itself to be a healthy, energetic university with adequate resources to support both ongoing and new initiatives.



Joanne M. DeStefano  
Executive Vice President and Chief Financial Officer

### OVERVIEW

The University ended the fiscal year with approximately \$10.5 billion in net assets, up from \$10.0 billion or a 4.8 percent increase from the previous year. This \$0.5 billion increase in net assets was primarily due to contributions for capital acquisitions, trusts and endowments, and investment returns. Total unrestricted net assets are \$3.4 billion, up from \$3.1 billion, or a 9.8 percent increase, from the previous year. The University's endowment grew by \$355.0 million. The endowment balance at the end of the fiscal year was \$6.9 billion, compared to \$6.5 billion in fiscal year 2017.

### OPERATING RESULTS

Operating results for fiscal year 2018 showed a loss of \$79.1 million, which is 1.9 percent of the total \$4.2 billion revenue. Fiscal year 2017 results showed a loss of \$7.5 million, or 0.2 percent of the total \$4.0 billion revenue. The primary factor affecting the negative FY18 operating margin was a decrease in contributions (\$54.7 million, or 18 percent) and an increase in depreciation expense (\$26.9 million, or 9 percent).

### FINANCIAL YEAR IN REVIEW

#### Statement of Financial Position

The University's overall net assets increased by \$479.7 million, or 4.8 percent. Because of this performance in the current year, the statement of financial position, or balance sheet, has strengthened, with over \$10.5 billion in net assets, including \$3.4 billion in unrestricted net assets.

#### Assets

Cash and cash equivalents includes cash on hand and in bank accounts, money market funds, and other temporary investments held for working capital purposes with an original maturity term of ninety days or less. Cash is subject to variation from year to year because of the University's holdings as of June 30 in cash equivalents. At the end of fiscal year 2018, cash and cash equivalents were \$59.9 million higher (\$241.1 million) than the prior year (\$181.3 million) which represents an increase of 33.0 percent.

Receivables from all sources including customers, students, and donors, more fully disclosed in Note 2 of the consolidated financial statements, of \$1.3 billion (net of allowance for doubtful accounts of \$62.9 million) decreased by \$29.6 million, or 2.2 percent.

Investments, comprised of international equity, fixed income, commodities, real estate, and private equity assets, had a balance of \$7.5 billion as of June 30, 2018, a 4.6 percent increase from the prior year (\$7.2 billion). The underlying security holdings within investments are managed by numerous external investment managers, selected by and engaged on behalf of the University through the Office of University Investments (OUI), and held in discrete investment portfolios by manager.

The University continues to enhance its physical plant with new buildings, improvements to older buildings, and infrastructure projects. Land, buildings, and equipment, now \$4.3 billion, increased by \$40.2 million, which consisted of projects placed in service as well as construction in progress (CIP). During the fiscal year, the University placed into service renovations in Ithaca to Hughes Hall, Upson Hall, and the College of Veterinary Medicine; and fit-out and conversion of the Jacob S. Lasdon House and the Feil Family Student and Education Center at Weill Cornell Medicine. Additionally, it placed into service at Cornell Tech the Bloomberg Center and Site Development and Utilities. CIP at fiscal year-end includes several major projects, such as the Cornell Tech Executive Education Center. Finally, the University recorded a capital lease for the Breazzano building in Ithaca.

Other assets of approximately \$137.0 million remained relatively consistent year over year.

#### Liabilities

The accounts payable and accrued expenses balance of \$592.1 million decreased by \$45.5 million, or 7.1 percent, for the year. This was due primarily to a \$44.8 million decrease in the swap fair value, which was affected by an increase in interest rates.

Deferred benefits include benefits to employees that are not yet paid. The largest component is the University obligation to its employees after retirement, including pensions and retiree health and life insurance benefits. Of the deferred benefits of \$621.3 million (which decreased this year by \$35 million, or 5.4 percent), \$406.9 million relates to pension and other postretirement benefits, which decreased 7.8 percent over the prior year due to factors described below. These liabilities are further disclosed in Note 6.

Funds held in trust for others represents resources that are invested by the University as a custodian for other closely associated parties. Independent trustees are responsible for investing the funds and for the designation of income distribution. The decrease of \$28.9 million, or 21.1 percent, was the result of a combination of withdrawals of \$44.5 million and an increase in market value.

The bonds and notes payable decline of \$26.6 million, or 2.0 percent, was due to a \$42.9 million decrease (\$12 million decrease bond premium amortization and \$30.9 million in scheduled annual principal payments) and a \$15.7 million increase because of the Hudson Residential JV drawing additional loan debt to finance expenses (construction cost). These bonds and notes payable are further disclosed in Note 8.

Total assets increased by \$406.9 million, or 3.1 percent, while total liabilities decreased by \$72.9 million, or 2.3 percent, for a total net asset increase of \$479.7 million.

### Statement of Activities

The Statement of Activities includes results from both operating and non-operating activities. Operating activities includes the revenues earned and expenses incurred in the current year to support the University’s mission-related activities.

### Operating Revenues

For fiscal year 2018, operating expenses of \$4.3 billion exceeded operating revenue of \$4.2 billion resulting in a \$79.1 million net operating loss.

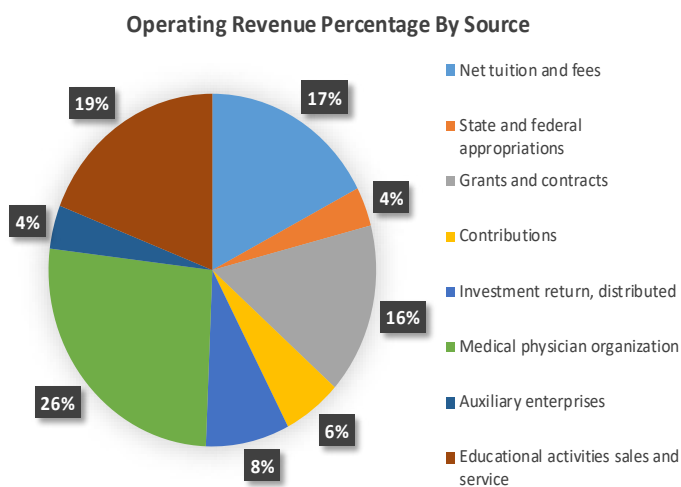
In fiscal year 2018, net tuition and fees revenue was \$726.6 million. This was a \$49.7 million increase, or 7.4 percent. Gross tuition revenue of \$1.1 billion increased by 6.4 percent because of Board-authorized tuition increases and a 3.1 percent increase in the number of students, for an overall enrollment of 24,123.

The scholarship allowance of \$385.2 million represented the financial support awarded by the University to individual undergraduate and graduate students to offset some portion of the amount of tuition billed. Undergraduate tuition financial aid is awarded on only the basis of financial need. For graduate students, the amount of financial aid awarded may be based on financial need and/or student merit. The financial aid category also includes the amount of stipends awarded to students typically as components of fellowship awards or appointments as graduate teaching or research assistants. 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.

State and federal appropriations of \$150.6 million remained consistent year over year. The University receives appropriations from both the New York State and federal governments. Typically, appropriations are awarded based on legislation, and not through an application process.

Grant, contracts and similar agreements (sometimes referred to as “Sponsored Programs”) is revenue generated from external entities, such as governmental agencies, corporations, or non-profit organizations. Sponsored agreements are allocated and charged a portion of the University’s facilities and administrative (F&A) costs using the indirect cost, or F&A, rate. The rates are federally negotiated, University-approved, and in some cases limited by the sponsor. Combined direct and indirect revenues from grants, contracts and similar agreements totaled \$655.7 million, an increase of \$58.7 million, or 9.8 percent.

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the appropriate categories of net assets in the periods received. Contribution revenue for operations was \$243.0 million, versus \$297.6 million in fiscal year 2017, an 18.4 percent decrease.





Investment return distributed was \$346.8 million, which represented a decrease of 2.6 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.

Medical Physician Organization revenue includes revenues generated by physician members conducting instructional and research activities, and clinical practice income from their professional services to patients. The Medical Physician Organization continues to grow, with revenues up 5.0 percent, reaching \$1.1 billion, compared to \$1.05 billion in fiscal year 2017. This year's income represented 26.3 percent of total operating revenues.

Auxiliary enterprises are revenues from non-academic entities that exist predominantly to furnish goods or services to students, faculty, or staff, and that charge a fee directly related to, although not necessarily equal to, the cost of the goods or services. The University's auxiliary enterprises, which includes housing, dining, conference services, and retail operations (Cornell Store), totaled \$167.4 million.

Educational activities and other sales and services includes revenues associated with non-credit, educational-related programs and other sales and service activities that occur in many units throughout the university. Examples of such programs include executive education programs, the Statler Hotel, the Cornell University Hospital for Animals, royalty income, athletic programs and ticket revenue, rental income, and student health insurance premiums. In addition, revenue received from WCM various affiliations including, but not limited to, NewYork-Presbyterian Hospital (NYPH). Revenue for educational activities and other sales and services totaled \$798.9 million, an increase of \$76.3 million, or 10.6 percent over last year, and represented 19.1 percent of total operating revenues.

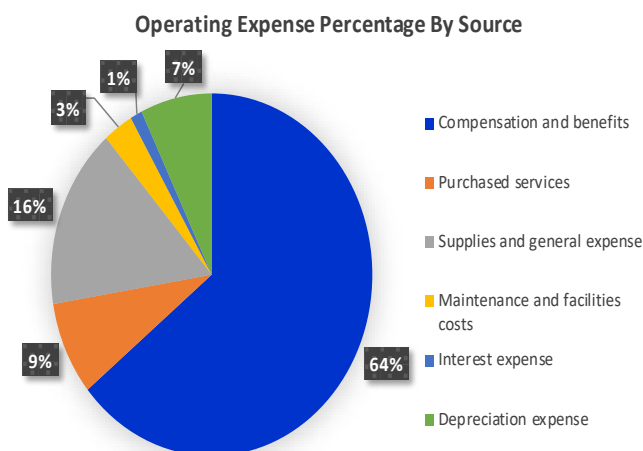
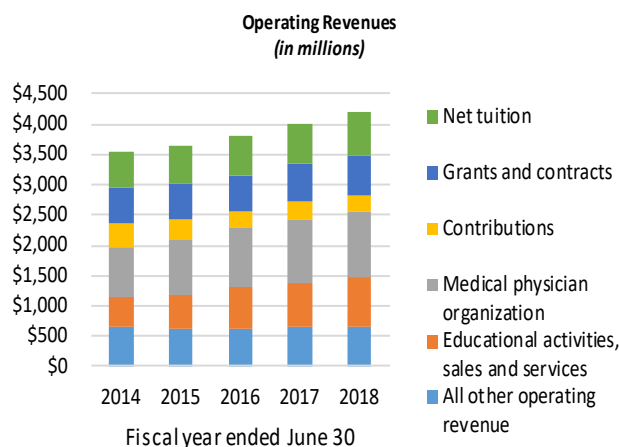
Net assets released from restriction represents the transfer of funds from temporarily restricted net assets to unrestricted net assets as a result of the satisfaction of donor-imposed contribution stipulations with respect to timing or purpose. In fiscal year 2018, this amount was \$312.0 million.

### Operating Expenses

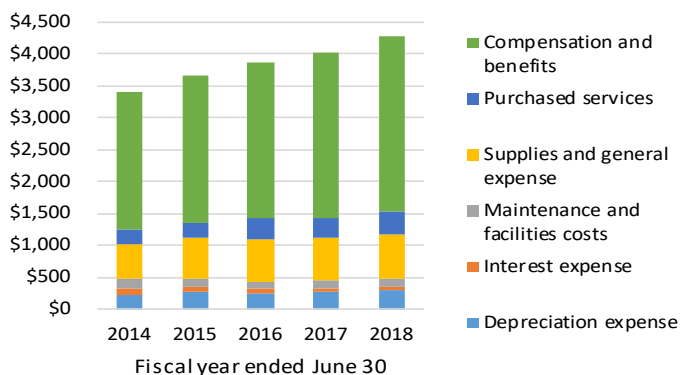
Expenses for salaries and wages are the major component of operating expenses for a research university, and Cornell is no exception. Consistent with the prior year, compensation and benefits totaled \$2.7 billion and comprised 64.1 percent of overall operating expenses. This expense increased by \$150.6 million, or 5.8 percent. Beyond the overall salary improvement plan, 3.0 percent in Ithaca, compensation at WCM was a major component of this increase due to an overall headcount increase of 272 employees to 8,672 compared to 8,400 in FY17. This increase was related to strategic initiatives and expansion of the Medical Physician Organization.

Supplies and general expense of \$691.1 million increased by \$35.7 million in fiscal year 2018, and represented 16.2 percent of total operating expenses. Included in this expense line is financial aid in excess of tuition per student, which may include aid applied for room, board, and student health plan premium.

Other operating expenses, which includes depreciation expense, maintenance and facilities costs, and purchased services, represented 19.8 percent of total operating expenses. These expenses increased 8.2 percent over fiscal year 2017, primarily due to new building additions as discussed in Note 4. The University is committed to managing overall costs without jeopardizing its ability to carry out its missions and strategic initiatives and continues to focus efforts on streamlining, efficiencies, and reducing administrative burden.



### Operating Expenses (in millions)



### Non-Operating Revenues and Expenses

Non-operating activities represent those in support of the University but not directly related to its core, day-to-day activities. These 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.

State appropriations for capital acquisitions represents NYS appropriations for SUNY construction funding for capital projects on contract college buildings, which allow the University to build and improve its contract college facilities. The current year revenues decreased by \$11.2 million from the prior year.

Grants and contracts for capital acquisitions represents a one-time grant from the New York City Economic Development Corporation toward construction of the Bloomberg Building. These revenues decreased by \$23.7 million in the current year because this project is near completion.

Contributions for capital acquisitions, trusts and endowments represents gifts designated for non-operating purposes such as capital projects, trusts, and endowments, which totaled \$179.7 million, resulting in a 54.0 percent decrease from the prior year.

The overall non-operating gain of \$360.0 million for fiscal year 2018 is driven by the remaining income and expense items, which are significantly affected by market factors. These include:

Investment return, net of amount distributed, which consists of 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. The return of \$290.6 million represents a decrease of \$120.5 million, or 29.3 percent, primarily due to market conditions. This amount is net of the amount distributed of \$346.8 million, reflected in the operating revenues.

The \$45.6 million gain, reflected as the pension and postretirement changes 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.

The year-over-year increase in the value of interest rate swaps is based on swap interest payments and any change in the fair value of the swaps due to changes in the discount rate. The net gain of these for fiscal year 2018 was \$23.6 million.

### 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)

## 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, has codified three standards (two of which must be implemented in fiscal year 2019) 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 statement of financial position. 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.

### Summary

Even though the University has experienced negative operating returns during the two financial statement periods presented, overall results during the period was a positive \$1.5 billion. This is primarily due to positive market conditions and donor philanthropy. We must improve operational results in the future by reducing expenses while continuing to deliver our mission to discover, preserve, and disseminate knowledge, to educate the next generation of global citizens, and to promote a culture of broad inquiry throughout and beyond the Cornell community.



William Sibert  
University Controller

2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
\$ 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
190.5	573.9	210.6	155.3	287.4	349.7	378.2	337.0	479.2	235.1
(340.9)	(578.7)	(286.9)	(233.0)	(354.1)	(422.2)	(440.8)	(439.2)	(414.0)	(426.6)
(1433.4)	433.7	774.9	(57.2)	468.4	780.2	140.0	(242.5)	669.1	609.8
<u>\$ 3,794.3</u>	<u>\$ 4,223.2</u>	<u>\$ 4,921.8</u>	<u>\$ 4,786.9</u>	<u>\$ 5,188.6</u>	<u>\$ 5,896.3</u>	<u>\$ 5,973.7</u>	<u>\$ 5,629.0</u>	<u>\$ 6,363.3</u>	<u>\$ 6,781.6</u>
<u>\$ 45.12</u>	<u>\$ 47.38</u>	<u>\$ 53.58</u>	<u>\$ 50.67</u>	<u>\$ 53.30</u>	<u>\$ 58.45</u>	<u>\$ 57.31</u>	<u>\$ 52.32</u>	<u>\$ 55.51</u>	<u>\$ 58.27</u>

## Report of Independent Auditors

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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 statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities for the year ended June 30, 2018 and statements of cash flows for the years ended June 30, 2018 and 2017.

### 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 audits. We conducted our audits 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 as of June 30, 2018 and 2017 and the changes in its net assets for the year ended June 30, 2018 and its cash flows for the years ended June 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

We previously audited 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 (not presented herein), and in our report dated October 25, 2017, 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, 2017 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Rochester, New York  
November 1, 2018

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
AS OF JUNE 30, 2018 AND JUNE 30, 2017 (in thousands)

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
1 Cash and cash equivalents	\$ 241,127	\$ 181,265
2 Accounts receivable, net (note 2-A)	444,990	392,435
3 Contributions receivable, net (note 2-B)	826,109	902,846
4 Prepaid expenses and other assets	137,030	136,032
5 Student loans receivable, net (note 2-C)	73,772	79,211
6 Investments (note 3)	7,503,029	7,170,535
7 Land, buildings, and equipment, net (note 4)	4,297,047	4,256,807
8 Funds held in trust by others (note 5)	113,795	110,917
9 Total assets	<u>\$ 13,636,899</u>	<u>\$ 13,230,048</u>
<b>Liabilities</b>		
10 Accounts payable and accrued expenses	\$ 592,141	\$ 637,597
11 Deferred revenue and other liabilities	201,310	190,025
12 Obligations under split interest agreements (note 5)	135,331	133,459
13 Deferred benefits (note 6)	621,348	656,473
14 Funds held for others (note 7)	108,195	137,093
15 Obligations under capital leases (note 9)	122,552	67,842
16 Bonds and notes payable (note 8)	1,305,651	1,332,261
17 Government advances for student loans	46,048	50,679
18 Total liabilities	<u>3,132,576</u>	<u>3,205,429</u>
<b>Net assets (note 11)</b>		
19 Unrestricted	3,425,131	3,120,525
20 Temporarily restricted	3,381,016	3,329,946
21 Permanently restricted	3,698,176	3,574,148
22 Total net assets	<u>10,504,323</u>	<u>10,024,619</u>
23 Total liabilities and net assets	<u>\$ 13,636,899</u>	<u>\$ 13,230,048</u>

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



**CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR-ENDED JUNE 30, 2018 (in thousands)**

(WITH SUMMARIZED INFORMATION FOR THE YEAR-ENDED JUNE 30, 2017)

	Unrestricted	Temporarily Restricted
<b>Operating revenues</b>		
1 Tuition and fees	\$ 1,111,779	\$ -
2 Scholarship allowance	<u>(385,158)</u>	<u>-</u>
3 Net tuition and fees	726,621	-
4 State and federal appropriations	150,632	-
5 Grants, contracts and similar agreements		
6 Direct	495,946	-
7 Indirect cost recoveries	159,792	-
8 Contributions	84,622	158,343
9 Investment return, distributed	206,188	140,586
10 Medical Physician Organization	1,103,335	-
11 Auxiliary enterprises	167,391	-
12 Educational activities and other sales and services	798,853	-
13 Net assets released from restrictions	<u>311,962</u>	<u>(311,962)</u>
14 Total operating revenues	4,205,342	(13,033)
<b>Operating expenses (note 10)</b>		
15 Compensation and benefits	2,736,170	-
16 Purchased services	356,591	-
17 Supplies and general	691,079	-
18 Maintenance and facilities costs	128,935	-
19 Interest expense (note 8)	51,541	-
20 Depreciation	<u>307,109</u>	<u>-</u>
21 Total operating expenses	4,271,425	-
22 Change in net assets from operating activities	<u>(66,083)</u>	<u>(13,033)</u>
<b>Nonoperating revenues and (expenses)</b>		
23 State appropriations for capital acquisitions	33,930	-
24 Grants, contracts and similar agreements for capital acquisitions	7,441	-
25 Contributions for capital acquisitions, trusts and endowments	3,095	60,895
26 Investment return, net of amount distributed	71,264	223,647
27 Change in value of split interest agreements	2,589	(3,826)
28 Pension and postretirement changes	45,581	-
29 Swap interest and change in value of interest rate swaps	23,601	-
30 Other	(22,563)	-
31 Net assets released for capital acquisitions and reclassifications	<u>205,751</u>	<u>(216,613)</u>
32 Change in net assets from nonoperating activities	<u>370,689</u>	<u>64,103</u>
33 Change in net assets	304,606	51,070
34 Net assets, beginning of the year	<u>3,120,525</u>	<u>3,329,946</u>
35 Net assets, end of the year	<u>\$ 3,425,131</u>	<u>\$ 3,381,016</u>

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

Permanently Restricted	2018 Total	2017 Total	
\$ -	\$ 1,111,779	\$ 1,044,627	1
-	(385,158)	(367,731)	2
-	726,621	676,896	3
-	150,632	150,912	4
			5
-	495,946	451,023	6
-	159,792	146,037	7
-	242,965	297,628	8
-	346,774	355,904	9
-	1,103,335	1,050,433	10
-	167,391	162,433	11
-	798,853	722,590	12
-	-	-	13
-	4,192,309	4,013,856	14
-	2,736,170	2,585,582	15
-	356,591	315,228	16
-	691,079	655,409	17
-	128,935	132,302	18
-	51,541	52,635	19
-	307,109	280,176	20
-	4,271,425	4,021,332	21
-	(79,116)	(7,476)	22
-	33,930	45,096	23
-	7,441	31,168	24
115,690	179,680	390,535	25
(4,296)	290,615	411,133	26
1,796	559	10,571	27
-	45,581	58,094	28
-	23,601	55,560	29
(24)	(22,587)	(9,056)	30
10,862	-	-	31
124,028	558,820	993,101	32
124,028	479,704	985,625	33
3,574,148	10,024,619	9,038,994	34
\$ 3,698,176	\$ 10,504,323	\$ 10,024,619	35

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS-ENDED JUNE 30, 2018 AND JUNE 30, 2017 (in thousands)

	2018	2017
<b>Cash flows from operating activities</b>		
1 Change in net assets	\$ 479,704	\$ 985,625
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	(204,423)	(464,383)
3 Depreciation and amortization	298,981	271,339
4 Net realized and unrealized (gain)/loss on investments	(544,723)	(674,063)
5 Pension and postretirement changes	(45,581)	(58,094)
6 Change in value of interest rate swaps	(44,840)	(81,451)
7 Bond call premium	-	18,973
8 Loss on disposals of land, building, and equipment	1,226	7,470
9 Other adjustments	(2,877)	(10,825)
Change in assets and liabilities		
10 Accounts receivable, net	(52,555)	11,626
11 Contributions receivable, net	76,737	83,476
12 Prepaid expenses and other assets	(3,533)	(4,703)
13 Accounts payable and accrued expenses	22,335	(1,700)
14 Deferred revenue and other liabilities	11,285	(5,423)
15 Obligations under split interest agreements	(1,006)	12,058
16 Deferred benefits	10,456	18,319
17 Net cash provided/(used) by operating activities	<u>1,186</u>	<u>108,244</u>
<b>Cash flows from investing activities</b>		
18 Proceeds from the sale and maturities of investments	10,842,078	17,338,881
19 Purchase of investments	(10,622,635)	(17,181,628)
20 Acquisition of land, buildings, and equipment (net)	(312,591)	(453,370)
21 Student loans granted	(9,744)	(12,655)
22 Student loans repaid	15,475	14,974
23 Change in funds held for others, net of unrealized (gain)/loss on investments	(36,114)	(33,636)
24 Net cash used by investing activities	<u>(123,531)</u>	<u>(327,434)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions for capital acquisitions, trusts and endowments		
25 Investment in endowments	151,571	395,753
26 Investment in physical plant	50,488	65,202
27 Investment subject to living trust agreements	2,364	3,428
28 Principal payments of bonds, notes payable and capital leases	(33,265)	(279,731)
29 Proceeds from issuance of bonds and notes payable	15,680	52,731
30 Bond call premium, bond premium and issuance costs	-	(18,973)
31 Government advances for student loans	(4,631)	(51)
32 Net cash provided by financing activities	<u>182,207</u>	<u>218,359</u>
33 Net change in cash and cash equivalents	59,862	(831)
34 Cash and cash equivalents, beginning of year	181,265	182,096
35 Cash and cash equivalents, end of year	<u>\$ 241,127</u>	<u>\$ 181,265</u>
<b>Supplemental disclosure of cash flow information</b>		
36 Cash paid for interest	\$ 59,442	\$ 61,497
37 Increase/(decrease) in construction payables, non-cash activity	\$ (22,951)	\$ 7,334
38 Assets acquired under capital leases	\$ 56,350	\$ 64,267
39 Gifts-in-kind	\$ 2,586	\$ 10,250

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 over 24,000 students, 4,000 faculty, and approximately 282,000 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” or “WCM”), 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, and 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 ("Foundation"), an affiliated entity that is included in the consolidated financial statements. The Foundation maintains a donor-advised fund for which the donors can make recommendations to the fund's trustees regarding distributions to the University or other charitable organizations. Distributions from the Foundation to external charitable organizations are recorded as non-operating expenses.

### E. Investments

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

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

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

### F. Fair-Value Hierarchy

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

The fair value of Level 1 securities is based upon quoted prices in accessible active markets for identical assets. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets.

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.

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, is 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 the rates defined in the respective sponsored agreement. 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 for all WCM physicians at the main academic medical center and various clinical practice sites throughout New York City. In addition to generating clinical practice income, MPO members may provide instruction and conduct research activities. 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 related primarily to the appropriate discount rate for the purposes of fair-value calculations, to allowances for doubtful accounts and contractual allowances, and to self-insured risks. Actual results may differ from those estimates.

### O. Comparative Financial Information

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

### P. Accounting Pronouncements

In May 2014, the 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 and reviewing the potential impact on the financial statements, which is not expected to be material.

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 and is reviewing the potential impact on the financial statements.

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.

In June 2018, the FASB issued ASU 2018-08—Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The amendments are intended to assist in evaluating whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and in determining whether a contribution is conditional. The new standard will be effective for contributions received for the fiscal year ending June 30, 2019. The University has begun its planning for implementation of this new standard and is reviewing the potential impact on the financial statements.

### Q. Revisions

The University has revised the consolidated statement of financial position, statement of activities and statement of cash flows for the year ended June 30, 2017 to correct the classification of \$46 million of investments internally designated to fund the WCM post-retirement medical benefits plan. The University has concluded these investments were not effectively restricted and therefore should not have been considered plan assets in accordance with Accounting Standards Codification (ASC) 715, Compensation – Retirement Benefits. The consolidated statement of financial position, statement of activities and statement of cash flows for the year ended June 30, 2017 have been corrected to reflect this and other immaterial revisions between cash flow categories. This misclassification had no impact on net assets on the consolidated statement of activities. The University has evaluated the impact of this misclassification and concluded that it is not material, individually or in the aggregate, to the previously reported June 30, 2017 consolidated financial statements.

The following exhibit shows the impact of this misclassification in the consolidated statement of financial position, statement of activities and statement of cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

REVISIONS

	As previously reported	Adjustment	As revised
<b>Statement of Financial Position</b>			
Investments	\$ 7,124,578	\$ 45,957	\$ 7,170,535
Total assets	13,184,091	45,957	13,230,048
Deferred benefits	610,516	45,957	656,473
Total liabilities	3,159,472	45,957	3,205,429
Total liabilities and net assets	13,184,091	45,957	13,230,048
<b>Statement of Activities</b>			
Investment return, net of amount distributed	405,014	6,119	411,133
Pension and postretirement changes	64,213	(6,119)	58,094
<b>Statement of Cash Flows</b>			
Net realized and unrealized (gain)/loss on investments	(672,248)	(6,119)	(678,367)
Pension and postretirement changes	(64,213)	6,119	(58,094)

To conform to the revised June 30, 2017 balances, revisions were additionally made to Investments and Deferred Benefits disclosures included within note 3 and note 6 of these consolidated financial statements.

**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

	2018	2017
Grants and contracts	\$ 94,718	\$ 95,361
NewYork-Presbyterian Hospital and other affiliates	51,508	40,484
Patients (net of contractual allowances)	128,750	118,608
Reinsurance receivable	122,351	103,726
Student accounts	14,896	13,659
Other	66,344	60,339
Gross accounts receivable	\$ 478,567	\$ 432,177
Less: allowance for doubtful accounts	(33,577)	(39,742)
Net accounts receivable	\$ 444,990	\$ 392,435

The patient accounts receivable for medical services was comprised of the following at June 30, 2018 and 2017, respectively: commercial third parties 68.5 percent and 67.3 percent; federal/state government 17.4 percent and 16.7 percent; and patients 14.1 percent and 16.0 percent. Note 12 provides additional information related to the reinsurance receivable.

Other accounts receivable include receivables from other government agencies, matured bequests, and 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:

**SUMMARY OF CONTRIBUTIONS RECEIVABLE**

	<b>2018</b>	<b>2017</b>
Less than one year	\$ 341,413	\$ 372,009
Between one and five years	435,315	413,276
More than five years	164,223	242,001
Gross contributions receivable	\$ 940,951	\$ 1,027,286
Less: unamortized discount	(89,292)	(96,517)
Less: allowance for uncollectible amounts	(25,550)	(27,923)
Net contributions receivable	\$ 826,109	\$ 902,846

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

**EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE**

	<b>2018</b>	<b>2017</b>
Program support	\$ 420,169	\$ 469,049
Capital purposes	157,839	184,457
Long-term support	248,101	249,340
Net contributions receivable	\$ 826,109	\$ 902,846

At June 30, 2018, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions and conditional promises with significant requirements, were \$502,357.

**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. The Federal Perkins Loan Program ended as of June 30, 2018. Existing loans will be serviced throughout the repayment term.

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 table below provides additional information about the student loan receivables and the allowances associated with federal and institutional loan programs.

**SUMMARY OF STUDENT LOANS RECEIVABLE**

	<b>2018</b>			<b>2017</b>
	Receivable	Allowance	Net receivable	Net receivable
Federal revolving loans	\$ 40,291	\$ (1,074)	\$ 39,217	\$ 47,969
Institutional loans	37,476	(2,921)	34,555	31,242
Total student loans receivable	\$ 77,767	\$ (3,995)	\$ 73,772	\$ 79,211

**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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

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

	<u>2018</u>	<u>2017</u>
Long-term investments (LTI)		
Long-term investment pool (LTIP)	\$ 6,781,595	\$ 6,363,271
Other LTI	448,695	394,477
Total LTI	<u>\$ 7,230,290</u>	<u>\$ 6,757,748</u>
Separately invested and other assets	<u>272,739</u>	<u>412,787</u>
Total investments	<u>\$ 7,503,029</u>	<u>\$ 7,170,535</u>

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

SUMMARY OF INVESTMENT RETURN

	<u>2018</u>	<u>2017</u>
Interest and dividends, net of investment fees	\$ 85,450	\$ 75,310
Net realized gain/(loss)	430,245	324,195
Net unrealized gain/(loss)	<u>121,694</u>	<u>367,532</u>
Total investment return	<u>\$ 637,389</u>	<u>\$ 767,037</u>

**B. Fair Value**

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

INVESTMENTS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	Net asset value	<u>2018</u> Total	<u>2017</u> Total
Cash and cash equivalents	\$ 142,849	\$ 20,272	\$ -	\$ -	\$ 163,121	\$ 349,592
Derivatives	-	(5,961)	-	-	(5,961)	(2,260)
Equity						
Domestic equity	284,020	315,090	1,654	-	600,764	709,560
Foreign equity	386,998	538,044	849	610,424	1,536,315	1,260,740
Hedged equity	-	-	2,788	-	2,788	435,754
Private equity	-	-	61,974	1,572,494	1,634,468	1,380,558
Fixed income						
Asset backed fixed income	-	21,282	844	-	22,126	27,575
Corporate bonds	-	132,214	2,070	-	134,284	224,985
Equity partnership	-	31	-	531,869	531,900	459,181
International	2,970	28,632	469	-	32,071	93,168
Municipals	-	3,003	-	-	3,003	11,005
Mutual funds (non-equity)	196	14,854	-	-	15,050	19,921
Preferred/convertible	-	1,380	4,929	-	6,309	20,117
Other fixed income	-	495	-	-	495	105
US government	109,562	59,470	-	-	169,032	130,575
Marketable alternatives	-	279	-	1,324,224	1,324,503	878,982
Real assets	-	62,694	19,997	1,242,818	1,325,509	1,185,786
Receivable for investments sold	31,701	-	-	-	31,701	20,038
Payable for investments purchased	(49,126)	-	-	-	(49,126)	(58,923)
Other	-	-	24,677	-	24,677	24,076
Total investments	<u>\$ 909,170</u>	<u>\$ 1,191,779</u>	<u>\$ 120,251</u>	<u>\$ 5,281,829</u>	<u>\$ 7,503,029</u>	<u>\$ 7,170,535</u>

Securities not included in investment portfolio

Cash and cash equivalents	\$ 118,905	\$ -	\$ -	\$ -	\$ 118,905	\$ 69,963
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Level 1 investments consist of cash and cash equivalents, equity, and fixed-income securities with observable market prices. Fair value is readily determinable based on quoted prices in active markets. Unsettled trade receivable and payable valuations are reflective of cash settlements subsequent to the fiscal year-end and are also categorized as Level 1. The University does not adjust the quoted price for such instruments, even in situations where the University holds a large position and a sale of all its holdings could reasonably impact the quoted price.

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

Level 3 investments have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value are based upon the best information in the circumstance and may require significant management judgment. Investments included in Level 3 consist primarily of the University's ownership in real estate, oil and mineral rights, limited partnerships, and equity positions in private companies.

### C. Investments Using Net Asset Value

The net asset value ("NAV") column above represents the University's ownership interest in certain alternative investments. As a practical expedient, the University uses its ownership interest in the NAV to determine the fair value of all alternative investments that do not have a readily determinable fair value, and have financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The NAV of these investments is determined by the general partner and is based upon appraisal or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the general partner will take into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure that NAV is an appropriate measure of fair value as of June 30.

The following table provides additional information about alternative investments measured at NAV:

#### SUMMARY OF ALTERNATIVE INVESTMENTS MEASURED USING NET ASSET VALUE

Asset class	NAV in funds	Unfunded commitments	Timing to draw commitments	Redemption terms*
Private equity	\$ 1,572,494	\$ 696,741	1 to 10 years	These funds are in a private equity structure, with no ability to be redeemed
Real assets	1,242,818	521,851	1 to 10 years	These funds are in a private equity structure, with no ability to be redeemed
Fixed income	531,869	258,577	1 to 10 years	No redemptions available for funds in a private equity structure; balance includes 5% within 7 days, 11% with rolling 2-year redemptions with 90-days notice, and 8% within 5 years **
Foreign equity	610,424	n/a	n/a	Ranges between thrice-monthly redemption with 2-days notice, to rolling 3-year redemption with 90-days notice
Marketable alternatives	1,324,224	n/a	n/a	Ranges between quarterly redemption with 30-days notice, to 33% redemption per year with 60-days notice
Total for alternative investments using NAV	\$ 5,281,829	\$ 1,477,169		

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

\*\* 76% of NAV is in a private equity structure, with no ability to be redeemed. Redemption provisions for the remaining 24% are shown above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

**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, 2018. There were no significant transfers into or out of Level 3 during the fiscal year ended June 30, 2018.

**SUMMARY OF LEVEL 3 INVESTMENT ACTIVITY**

	Fair value at June 30, 2017	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2018
<b>Equity</b>							
Domestic equity	\$ 1,656	\$ -	\$ (2)	\$ -	\$ -	\$ -	\$ 1,654
Foreign equity	6,744	(681)	591	-	(5,805)	-	849
Hedged equity	4,945	(140)	70	17	(2,104)	-	2,788
Private equity	47,822	(352)	1,205	13,305	(6)	-	61,974
<b>Fixed income</b>							
Asset backed fixed income	929	33	(40)	-	(78)	-	844
Corporate bonds	2,888	21	25	248	(1,112)	-	2,070
International	-	-	(22)	491	-	-	469
Preferred/convertible	5,014	-	(85)	-	-	-	4,929
<b>Real assets</b>							
Other	23,953	(59)	(6,375)	3,363	(885)	-	19,997
	24,076	147	698	1,164	(1,408)	-	24,677
<b>Total level 3 investments</b>	<b>\$ 118,027</b>	<b>\$ (1,031)</b>	<b>\$ (3,935)</b>	<b>\$ 18,588</b>	<b>\$ (11,398)</b>	<b>\$ -</b>	<b>\$ 120,251</b>

Level 3 equities not priced by qualified third parties (e.g., brokers, pricing services, etc.) are valued using discounted cash flows, 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.

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 flows.

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 inputs	Range (weighted average)
Equity				
Domestic equity	\$ 1,654	Start-up valuation		
Foreign equity	849	Third-party valuation		
Hedged equity	2,788	Third-party valuation		
Private equity	1,082	Discounted cash flow	Discount rate	13%
			Discount for lack of marketability	20%
	5,165	Start-up valuation		
	55,727	Third-party valuation		
Fixed income				
Asset backed fixed	844	Discounted cash flow	Discount rate	3.9% - 4.7% (4.6%)
Corporate bonds	2,070	Third-party valuation		
International	469	Third-party valuation		
Preferred/convertible	4,929	Market comparable	Dividend multiple	17.1x - 20.7x (20.0x)
Real assets	166	Discounted cash flow	Discount rate	15%
			Years to maturity	12
	972	Sales comparison approach	Recent transactions	
	18,859	Third-party valuation		
Other	9,286	Discounted cash flow	Discount rate	3.0% - 5.3% (3.5%)
			Years to maturity	4 - 14 (7)
	1,291	Start-up valuation		
	14,100	Third-party valuation		
Total Level 3 investments	\$ 120,251			

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

#### E. Derivative Holdings

The use of certain financial derivative instruments is governed by either the University's written investment policy, specific manager guidelines, or partnership/fund agreement documents. Specifically, financial derivative instruments may be used to manage foreign currency exposure, to obtain commodity exposure, to create synthetic exposure, or to obtain protection against increases in interest rates. These derivatives, based on definitions in GAAP, are not designated as hedging instruments. As part of its overall diversification strategy, the University allocates a percentage of its assets to investment managers specializing in securities whose prices are denominated in foreign currencies. The investment guidelines provide discretion to these managers to adjust the foreign currency exposure of their investment portfolios by using derivative instruments. A derivative is 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, or for 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

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, 2018 and 2017, the University had unfunded premium payment commitments of \$3,072 and \$4,097 respectively. The University's premium payment schedule is as follows: \$1,024 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

Location	Derivative type	2018			2017		
		Notional amount	# of Contracts	Fair value	Notional amount	# of Contracts	Fair value
Investments							
	Foreign currency	\$ -	28	\$ 426	\$ -	43	\$ (341)
	Commodity	130,826	55	(1,735)	-	-	-
	Synthetic	174,941	16	(2,951)	(3,464)	2	(1)
	Interest rate	301,004	3	(1,701)	301,004	3	(1,918)
	Total fair value	\$ 606,771	102	\$ (5,961)	\$ 297,540	48	\$ (2,260)

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, 2018	Book value at June 30, 2017
Land, buildings, and equipment	\$ 6,232,741	\$ 5,745,468
Furniture, equipment, books, and collections	1,371,173	1,310,794
Capital leases	125,059	68,708
Construction in progress	211,039	488,652
Total before accumulated depreciation	\$ 7,940,012	\$ 7,613,622
Accumulated depreciation	(3,642,965)	(3,356,815)
Net land, buildings, and equipment	\$ 4,297,047	\$ 4,256,807

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 \$741,078 and \$742,876 at June 30, 2018 and 2017, 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 \$1,338 and \$2,438 at June 30, 2018 and 2017, respectively.

The future commitments on capital projects in progress, excluding projects funded by New York State, are approximately \$98,768 at June 30, 2018.

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 co-location 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, 2018, the unamortized amount of the demolition costs is \$55,364.

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 \$128,149 included in land, buildings, and equipment, net attributed to the joint venture at June 30, 2018. In addition, Hudson Cornell Tech LLC, a subsidiary of Hudson Cornell Residential JV LLC, held bonds and notes payable related to the construction of the residential building (“The House”) (see Note 8A). Unrestricted net assets of \$4,509 and \$5,625, representing the non-controlling interest of H/R Tech Residential LLC, is also consolidated into the University’s net assets at June 30, 2018 and 2017, respectively. Operating activity related to the joint venture is immaterial in the current fiscal year.

The Tata Innovation Center (formerly “The Bridge”) is a corporate co-location building and 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. As part of the lease agreement, the University has made a commitment in the form of gap rent for the developer’s unit(s) in an amount not to exceed \$2,982 annually, or \$44,731 over twenty years. The annual amount of gap rent is adjusted based upon the occupancy level in the developer’s unit(s). During the year ended June 30, 2018, a gap rent payment of \$2,982 was made.

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 Tata Innovation Center began 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 determined using present value calculations 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

	2018 Total	Valuation methodologies	Unobservable inputs	Range (weighted average)
Funds held in trust by others				
Remainder	\$ 53,682	Present value calculation	Discount rate Years to maturity	4.00% 0-55 (11)
Lead and perpetual	60,113	Discounted cash flows	Discount rate	4.60%
Total funds held in trust by others	<u>\$ 113,795</u>			
Obligations under split interest agreements	\$ 135,331	Discounted cash flows	Discount rate Years to maturity	4.20% 0-62 (16)



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(dollars in thousands)

SUMMARY OF LEVEL 3 SPLIT-INTEREST AGREEMENT ACTIVITY

	Fair value at June 30, 2017	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2018
Funds held in trust by others							
Remainder	\$ 50,067	\$ 1,638	\$ (2,053)	\$ 5,099	\$ (1,069)	\$ -	\$ 53,682
Lead and perpetual	60,850	(3,725)	(16)	3,004	-	-	60,113
Total funds held in trust by others	\$ 110,917	\$ (2,087)	\$ (2,069)	\$ 8,103	\$ (1,069)	\$ -	\$ 113,795
Obligations under split-interest agreements	\$ 133,459	\$ -	\$ 1,872	\$ -	\$ -	\$ -	\$ 135,331

6. DEFERRED BENEFITS

A. General Information

Accrued employee benefit obligations as of June 30 include:

SUMMARY OF DEFERRED BENEFITS

	2018	2017
Postemployment benefits	\$ 26,034	\$ 27,526
Pension and other postretirement benefits	406,852	441,200
Other deferred benefits	188,462	187,747
Total deferred benefits	\$ 621,348	\$ 656,473

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 colleges at 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 (the endowed colleges at Ithaca only), all of which permit employee contributions within the tax deferred annuity plans. Total contributions of the endowed colleges at Ithaca and WCM plans for the fiscal years ended June 30, 2018 and 2017 amounted to \$115,051 and \$111,336 respectively.

WCM maintains the University's only defined benefit pension 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.

Additionally, the University provides health and life insurance benefits for 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 defined benefit pension and postretirement plans' obligations and funded status as of June 30:

## SUMMARY OF OBLIGATIONS AND FUNDED STATUS

	Pension benefits		Other postretirement	
	2018	2017	2018	2017
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 111,530	\$ 96,109	\$ 255,181	\$ 217,866
Actual return on plan assets	9,186	13,147	19,753	32,315
Employer contribution	6,500	6,000	26,781	23,052
Benefits paid	(4,331)	(3,726)	(21,781)	(18,052)
Fair value of plan assets at end of year	\$ 122,885	\$ 111,530	\$ 279,934	\$ 255,181
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 175,870	\$ 160,601	\$ 632,041	\$ 638,835
Service cost (benefits earned during the period)	10,824	9,509	30,757	30,535
Interest cost	7,658	6,758	26,250	24,734
Actuarial (gain)/loss	(1,736)	2,728	(48,814)	(46,851)
Gross benefits paid	(4,331)	(3,726)	(20,212)	(16,614)
Less: federal subsidy on benefits paid	-	-	1,364	1,402
Projected benefit obligation at end of year	\$ 188,285	\$ 175,870	\$ 621,386	\$ 632,041
Funded status	\$ (65,400)	\$ (64,340)	\$ (341,452)	\$ (376,860)
Amounts recognized in the consolidated statement of financial position	\$ (65,400)	\$ (64,340)	\$ (341,452)	\$ (376,860)
Amounts recorded in unrestricted net assets not yet amortized as components of net periodic benefit cost				
Prior service cost	\$ (324)	\$ (416)	\$ -	\$ -
Net actuarial (gain)/loss	38,887	44,933	40,557	93,844
Amount recognized as reduction in unrestricted net assets	\$ 38,563	\$ 44,517	\$ 40,557	\$ 93,844
Amounts recorded in nonoperating pension and postretirement changes				
Change in amounts not yet amortized as components of net periodic benefit cost	\$ 5,954	\$ 7,282	\$ 53,287	\$ 78,000
Other components of net periodic benefit cost	(2,690)	(3,621)	(10,970)	(23,567)
Total nonoperating pension and postretirement changes	\$ 3,264	\$ 3,661	\$ 42,317	\$ 54,433

The accumulated benefit obligation for the pension plans was \$160,410 and \$150,761 at June 30, 2018 and 2017, 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	
	2018	2017	2018	2017
Service cost (benefits earned during the period)	\$ 10,824	\$ 9,509	\$ 30,757	\$ 30,535
Interest cost	7,658	6,758	26,250	24,734
Expected return on plan assets	(7,818)	(6,621)	(18,773)	(16,067)
Amortization of prior service cost	(92)	(92)	-	-
Amortization of net (gain)/loss	2,942	3,576	3,493	7,283
Net periodic benefit cost	\$ 13,514	\$ 13,130	\$ 41,727	\$ 46,485

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(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, 2019 are estimated as follows:

ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST		
	Pension benefits	Other postretirement
Prior service cost	\$ (92)	\$ -
Net actuarial (gain)/loss	1,812	-
Total	\$ 1,720	\$ -

**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	
	2018	2017	2018	2017
Used to calculate benefit obligations at June 30				
Discount rate	4.31%	4.04%	4.30% / 4.29%	3.97% / 3.96%
Rate of compensation increase	3.00%	3.00%		
Used to calculate net periodic cost at July 1				
Discount rate	4.04%	3.94%	3.97% / 3.96%	3.83% / 3.79%
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	5.50% / 6.00%	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	3 / 4	4 / 5

The health care cost trend rate assumption has a significant effect on the amounts reported for postretirement health care plans. Increasing the health care cost trend rate by one percent in each future year would increase the benefit obligation by \$124,281 and the annual service and interest cost by \$15,004. Decreasing the health care cost trend rate by one percent in each future year would decrease the benefit obligation by \$88,256 and the annual service and interest cost by \$10,780.

**F. Plan Assets**

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.

The University's overall investment objectives for the pension plan and postretirement healthcare 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 implements investment allocations through various investment funds in order to carry out the investment objectives established by the RPOC.

Risk mitigation is achieved by diversifying investments across multiple asset classes, investing in high quality securities, and permitting flexibility in the balance of investments in the recommended asset classes. Market risk is inherent in any portfolio, but the investment policies and strategies are designed to avoid concentration of risk in any one entity, industry, country, or commodity. The funds in which the plan assets are invested are well-diversified and managed to avoid concentration of risk. The expected rate of return assumptions are based on the expertise provided by investment managers at the custodial bank. The factors that impact the expected rates of return for various asset types includes assumptions about inflation, historically based real returns, anticipated value added by investment managers, and expected average asset allocations.

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

## SUMMARY OF PLAN ASSETS

	Target allocation	Pension benefits		Other postretirement	
		2018	2017	2018	2017
Percentage of plan assets					
Equity securities	39-85%	64%	65%	77%	77%
Fixed income securities	15-55%	30%	29%	23%	23%
Real estate	0-10%	6%	6%	0%	0%
Total		100%	100%	100%	100%

## PENSION PLAN ASSETS AT FAIR VALUE

	Level 1	Level 2	Level 3	2018	2017
	fair value	fair value	fair value	Total	Total
Cash and cash equivalents					
Money market	\$ 3	\$ -	\$ -	\$ 3	\$ 342
Equity securities					
U.S. small cap	-	8,463	-	8,463	7,629
U.S. large cap	-	35,989	-	35,989	32,008
U.S. multi cap	-	7,364	-	7,364	6,798
U.S. REITS	-	3,082	-	3,082	2,695
Emerging markets	-	8,075	-	8,075	8,053
International equity	-	16,347	-	16,347	15,371
Fixed income securities					
U.S. high yield bonds	-	5,263	-	5,263	6,140
Corporate bonds	-	23,528	-	23,528	20,557
Mortgage-backed securities	-	3,441	-	3,441	3,015
International fixed income	-	1,225	-	1,225	2,176
Floating-rate debt instruments	-	2,457	-	2,457	-
Other types of investments					
Real estate	-	-	7,278	7,278	6,746
Receivable for investments sold	2,097	-	-	2,097	-
Payable for investments purchased	(1,727)	-	-	(1,727)	-
Total assets	\$ 373	\$ 115,234	\$ 7,278	\$ 122,885	\$ 111,530

## SUMMARY OF LEVEL 3 PENSION PLAN ACTIVITY

	Fair value, June 30, 2017	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value, June 30, 2018
	Mortgage-backed securities	\$ 2,985	\$ -	\$ 2	\$ 454	\$ -	\$ (3,441)
Real estate	6,746	-	532	-	-	-	7,278
Total Level 3 assets	\$ 9,731	\$ -	\$ 534	\$ 454	\$ -	\$ (3,441)	\$ 7,278

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

POSTRETIREMENT PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2018 Total	2017 Total
Cash and cash equivalents					
Money market	\$ 1,563	\$ -	\$ -	\$ 1,563	\$ 3,921
Equity securities					
U.S. small cap	-	26,586	-	26,586	25,061
U.S. large cap	-	90,548	-	90,548	82,011
Emerging markets	-	35,464	-	35,464	30,063
International equity	-	55,961	-	55,961	51,544
U.S. REITS	-	6,210	-	6,210	6,609
Fixed income securities					
U.S. high yield bonds	-	15,351	-	15,351	16,084
Corporate bonds	-	44,100	-	44,100	34,740
Emerging markets debt	-	4,150	-	4,150	5,133
Receivable for investments sold	3,649	-	-	3,649	1,928
Payable for investments purchased	(3,648)	-	-	(3,648)	(1,913)
Total assets	\$ 1,564	\$ 278,370	\$ -	\$ 279,934	\$ 255,181

G. Expected Contributions and Benefit Payments

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

EXPECTED CONTRIBUTIONS AND BENEFIT PAYMENTS

	Pension benefits	Other postretirement	
		Employer paid	Government subsidy
University contributions			
2019	\$ 7,000	\$ 25,052	n/a
Future benefit payments			
2019	5,698	21,314	1,817
2020	6,165	23,090	1,999
2021	7,067	24,748	2,183
2022	7,406	26,180	2,386
2023	7,778	27,769	2,602
2024-2028	52,616	168,540	16,767

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

H. Contract College Employees

Employees of the Contract Colleges are covered under the New York State pension plans. Contributions to the state retirement system and other employee benefit costs are paid directly by the state. The amounts of 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, 2018 and 2017 were \$17,306 and \$16,834, 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 \$222,006 and \$259,275 for the fiscal years ended June 30, 2018 and 2017, respectively. The University recognizes an offsetting liability for funds held for others, with one adjustment described below.

The New York Hospital-Cornell Medical Center Fund, Inc. (“Center Fund”), which benefits WCM and the New York-Presbyterian Hospital, is the major external organization invested in the University’s long-term investment portfolio with assets of \$184,225 and \$174,655 for the fiscal years ended June 30, 2018 and 2017, respectively. WCM holds a significant beneficial interest in the assets of the Center Fund of \$113,811 and \$122,182, for the fiscal years ended June 30, 2018 and 2017, respectively. The liability related to New York-Presbyterian’s interest is \$70,414 and \$52,473 for the fiscal years ended June 30, 2018 and 2017, respectively.

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, with a fair value of \$44,881 as of June 30, 2017 and an offsetting liability on the University’s consolidated statement of financial position, from the University’s long-term investment portfolio. The withdrawal was completed in July 2017.

## 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

	<u>2018</u>	<u>2017</u>	<u>Interest rates</u>	<u>Final maturity</u>
Dormitory Authority of the State of New York (DASNY)				
Revenue Bond Series				
1990B-fixed rate	\$ 27,870	\$ 31,150	4.50 to 5.00%	2025
2000A-variable rate/monthly	35,355	37,875	1.29 to 2.29	2029
2000B-variable rate/monthly	49,085	52,805	1.29 to 2.29	2030
2004A&B-variable rate/weekly	62,825	65,850	0.74 to 1.79	2033
2008B&C-fixed rate	106,035	109,210	5.00	2037
2009A-fixed rate	261,050	268,155	4.00 to 5.00	2039
2010A-fixed rate	285,000	285,000	4.00 to 5.00	2040
2016A-fixed rate	117,205	121,920	3.00 to 5.00	2035
Tax-exempt commercial paper	52,890	52,890	0.79 to 1.67	2037
Tompkins County Industrial Development Agency (TCIDA)				
2002A-variable rate/monthly	30,365	32,245	1.29 to 2.29	2030
2008A-fixed rate	57,320	59,155	3.00 to 5.00	2037
Empire State Development	1,375	1,500	-	2029
2007A Taxable commercial paper	83,890	83,890	1.15 to 2.10	-
Hudson Cornell Residential JV LLC	96,630	80,949	3.48 to 3.85	2019
Other	6,027	6,271	4.90 to 6.63	2039
Outstanding bonds and notes payable	<u>\$ 1,272,922</u>	<u>\$ 1,288,865</u>		
Unamortized premium and issuance costs	<u>32,729</u>	<u>43,396</u>		
Total bonds and notes payable	<u>\$ 1,305,651</u>	<u>\$ 1,332,261</u>		

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 and tax-exempt commercial paper notes agreements, these are general obligations of the University and are secured by a pledge of revenue. The University has not granted a pledge of revenue on other debt.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 the early redemption, reported as non-operating other in the consolidated statement of activities.

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 \$96,630 and \$80,949 of debt attributable to the subsidiary at June 30, 2018 and 2017, 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. 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
2019	\$ 128,984	\$ 45,718	\$ 174,702
2020	33,715	39,947	73,662
2021	35,267	44,916	80,183
2022	36,949	43,460	80,409
2023	38,598	42,014	80,612
Thereafter	999,409	433,551	1,432,960
Total	\$ 1,272,922	\$ 649,606	\$ 1,922,528

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, 2018 and 2017, 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, 2018, 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, 2018, the counterparty pays a variable interest rate equal to a percentage of the one-month LIBOR.

The following table provides detailed information on the interest-rate swaps at June 30, 2018, with comparative fair values for June 30, 2017. 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	2018 Level 2 fair value	2017 Level 2 fair value
Swap interest and change in value of interest-rate swaps						
	\$ 32,245	4.52	July 1, 2030	LIBOR	\$ (5,012)	\$ (6,939)
	87,557	3.92	July 1, 2038	LIBOR	(16,131)	(21,289)
	275,000	3.88	July 1, 2040	LIBOR	(79,298)	(95,715)
	188,465	3.48	July 1, 2041	LIBOR	(30,153)	(40,574)
	190,510	3.77	July 1, 2044	LIBOR	(39,819)	(50,735)
Total fair value					\$ (170,413)	\$ (215,252)

**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, 2018 and 2017, 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**

The University enters into lease agreements for the use of real property, machinery, and equipment. Total operating lease expenses were \$43,227 and \$35,829 for the fiscal years ended June 30, 2018 and 2017, 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 payments under capital leases expiring at various dates through September 30, 2051. The capital lease balance is primarily related to building leases for the Breazzano Family Center for Business Education at Ithaca and the Tata Innovation Center at Cornell Tech.

## ANNUAL MINIMUM LEASE PAYMENTS

Year	Capital	Operating
2019	\$ 8,846	\$ 46,430
2020	8,773	45,488
2021	8,669	45,009
2022	8,570	41,277
2023	9,118	39,268
Thereafter	294,990	340,289
Total minimum lease payments	\$ 338,966	\$ 557,761
Less: Amount representing interest	(216,414)	
Present value of net minimum lease payments	\$ 122,552	

**10. FUNCTIONAL EXPENSES AND STUDENT AID**

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

FUNCTIONAL EXPENSES		
	2018	2017
Instruction	\$ 900,894	\$ 872,383
Research	649,322	599,178
Public service	130,017	128,674
Academic support	318,291	293,823
Student services	206,429	174,661
Medical services	1,363,249	1,300,558
Institutional support	434,830	420,409
Enterprises and subsidiaries	282,053	258,834
Total expenses	\$ 4,285,085	\$ 4,048,520

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 \$150,994 and \$150,379 for the fiscal years ended June 30, 2018 and 2017, 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 \$49,394 and \$45,262 for the fiscal years ended June 30, 2018 and 2017, respectively.

Functional expenses include other components of net periodic benefit cost, recorded in nonoperating revenues and expenses, totaling \$13,660 and \$27,188 for the years ended June 30, 2018 and 2017, respectively.

Certain prior-year amounts for Institutional support have been reclassified to Medical services to conform to the current year presentation.

**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	2018 Total	2017 Total
<b>Endowment</b>					
True endowment	\$ (12,155)	\$ 1,766,257	\$ 3,173,462	\$ 4,927,564	\$ 4,554,894
Funds functioning as endowment (FFE)	1,422,855	351,752	-	1,774,607	1,780,625
Total true endowment and FFE	\$ 1,410,700	\$ 2,118,009	\$ 3,173,462	\$ 6,702,171	\$ 6,335,519
Funds held by others, perpetual	-	-	169,310	169,310	180,925
Total University endowment	\$ 1,410,700	\$ 2,118,009	\$ 3,342,772	\$ 6,871,481	\$ 6,516,444
<b>Other net assets</b>					
Operations	(246,163)	471,590	-	225,427	139,666
Student loans	9,033	-	50,253	59,286	53,776
Facilities and equipment	2,939,859	103,772	-	3,043,631	2,972,055
Split interest agreements	-	67,455	40,882	108,337	107,731
Funds held by others, other than perpetual	-	29,399	28,951	58,350	52,357
Contributions receivable, net	-	590,791	235,318	826,109	902,846
Long-term accruals	(688,298)	-	-	(688,298)	(720,256)
Total net assets	\$ 3,425,131	\$ 3,381,016	\$ 3,698,176	\$ 10,504,323	\$ 10,024,619

Unrestricted net asset balances for operations are affected primarily 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

	<u>2018</u>	<u>2017</u>
Academic programs and research	\$ 1,966,874	\$ 1,840,470
Financial aid	1,733,832	1,601,140
Professorships	1,447,617	1,362,084
General purpose and other	1,275,690	1,249,398
Facilities support	108,708	103,893
CU Foundation	<u>169,450</u>	<u>178,534</u>
Total true endowment and FFE, end of year	\$ 6,702,171	\$ 6,335,519

Of the endowment assets held at the University, 98 percent was invested in the LTIP at June 30, 2018 and 96 percent at June 30, 2017. 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, 2018, 291 of 7,147 true endowment funds invested in the LTIP had a total historic dollar value of \$150,991 and a fair value of \$138,836, resulting in these endowments being underwater by a total of \$12,155. 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	<u>2018</u> Total	<u>2017</u> Total
True endowment and FFE, beginning of year	\$ 1,395,479	\$ 1,909,832	\$ 3,030,208	\$ 6,335,519	\$ 5,584,197
Investment return					
Net investment income	12,618	37,578	1	50,197	41,734
Net realized and unrealized gain/(loss)	173,320	417,932	(1,714)	589,538	641,486
Total investment return	<u>\$ 185,938</u>	<u>\$ 455,510</u>	<u>\$ (1,713)</u>	<u>\$ 639,735</u>	<u>\$ 683,220</u>
New gifts	5,703	20,917	115,975	142,595	387,247
Amounts appropriated for expenditure/reinvestment	(78,925)	(234,799)	2,368	(311,356)	(317,054)
Other changes and reclassifications	(97,495)	(33,451)	26,624	(104,322)	(2,091)
Total true endowment and FFE, end of year	<u>\$ 1,410,700</u>	<u>\$ 2,118,009</u>	<u>\$ 3,173,462</u>	<u>\$ 6,702,171</u>	<u>\$ 6,335,519</u>

## 12. SELF-INSURANCE

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

### 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

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 \$170,633 and \$151,006 at June 30, 2018 and 2017, respectively, as other liabilities in the consolidated statement of financial position. In addition, WCM maintains a reinsurance program with MCIC with anticipated recoveries of \$122,351 and \$103,726, 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 - July 31 (prior plan year)	August 1 - June 30 (current plan year)	2018 Fiscal year total	July 1 - August 16 (prior plan year)	August 17 - June 30 (current plan year)	2017 Fiscal year total
Total premium revenue	\$ 2,475	\$ 29,897	\$ 32,372	\$ 3,693	\$ 26,965	\$ 30,658
Expenses						
Medical and prescription drug expense	2,819	21,000	23,819	2,976	14,264	17,240
Health center capitation	523	5,847	6,370	786	5,299	6,085
Administrative fees	381	3,240	3,621	82	2,387	2,469
Total expenses	\$ 3,723	\$ 30,087	\$ 33,810	\$ 3,844	\$ 21,950	\$ 25,794
Net income from health plan operations	\$ (1,248)	\$ (190)	\$ (1,438)	\$ (151)	\$ 5,015	\$ 4,864

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 \$109,562 and \$42,897 in its investment portfolio as of June 30, 2018 and 2017, 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.

**SUMMARY OF STUDENT HEALTH PLAN UNEARNED PREMIUMS**

	2018		2017	
	Unearned premiums 2016-2017 plan year	Unearned premiums 2017-2018 plan year	Unearned premiums 2015-2016 plan year	Unearned premiums 2016-2017 plan year
Balance as of July 1	\$ 2,270	\$ -	\$ 3,625	\$ -
Balance as of June 30	-	2,764	-	2,270
Net change	\$ (2,270)	\$ 2,764	\$ (3,625)	\$ 2,270

**SUMMARY OF STUDENT HEALTH PLAN RESERVES**

	IBNR/RBNP reserve		Contingency reserve	
	2018	2017	2018	2017
Balance as of July 1	\$ 3,203	\$ 2,500	\$ 1,723	\$ 1,547
Balance as of June 30	3,275	3,203	1,863	1,723
Net change	\$ 72	\$ 703	\$ 140	\$ 176

### **13. CONTINGENT LIABILITIES**

The University is a defendant in various legal actions, some 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**

In August 2018, the University issued \$150 million taxable 30-year fixed-rate debt to finance capital projects. Based on the University's evaluation of subsequent events through November 1, 2018, the date on which the consolidated financial statements were issued, there were no other events with 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*

Avery August, *Vice Provost for Academic Affairs*

Fredrick F. Burgess, *Vice President for Facilities and Campus Services*

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

Kelly E. Cunningham, *Chief of Staff and Special Council to the President*

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11/2018 120 CUDPS



