

# Cornell University 2009-2010 Financial Report

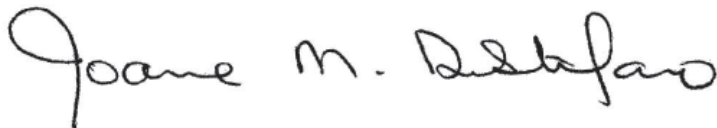
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I am very pleased to report on the progress Cornell has made in fiscal year 2010. In the most challenging economic environment in recent history, we acted decisively to adjust the University's cost structure and improve its liquidity position, while continuing to invest in the future. At the same time, the University benefited from a return of 12.6 percent on its investments, a healthy increase in gifts and pledges over the prior year, and significant federal stimulus funds for research.

Thanks to actions taken this year, Cornell is well on the way to emerging a stronger institution. The University restructured its debt portfolio and reduced operating costs by streamlining its workforce and "reimagining" its processes. New practices are now in place that will strengthen the entire institution's financial position, which, in turn, will further Cornell's enduring mission of teaching, research, and public engagement.

We tackled the fiscal situation without sacrificing the University's longer-term strategic ambitions, and continued to invest in our commitment to an accessible education by implementing a new enhanced financial aid program. We completed the financing of a Medical Research Building at East 69th Street and York Avenue, a project that will double the medical college's research space and strengthen biomedical research University-wide. Finally, we promulgated a new comprehensive strategic plan that includes faculty renewal as a top University priority. The University plans to invest in recruiting exceptional faculty in advance of an unprecedented number of retirements.

I know that we still face fiscal challenges that demand our continued attention and may require additional action. But as I look at our financial performance over the past year, I am proud of our accomplishments and ability to achieve cost-reduction objectives without sacrificing academic goals. The numbers alone do not tell the whole story of the extraordinary work performed by the University staff members at every level. Their loyalty, drive, and effort are a large part of what makes Cornell an exemplary institution, and what will undoubtedly move it into the future with fiscal strength.



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

### OVERVIEW

This year's financial results reflect an encouraging year, much better than last. This is true in at least two ways. First, during fiscal year 2010 there was an overall increase in net assets of \$624.4 million, compared to a \$1.9 billion reduction in the prior fiscal year. Second, the University accomplished several key financial goals, particularly increased operating revenues, control of operating costs, and a shift of the University's debt portfolio from variable-rate to fixed-rate debt.

The financial press, however, reminds us to be cautious. Some experts suggest that the economy is emerging from recession; others assert that it is poised for another decline, warning about severe inflation, dangerous deflation, or a recalcitrant job market that refuses to grow. In the face of

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“...the University accomplished several key financial goals, particularly increased operating revenues, control of operating costs, and a shift of the University's debt portfolio...”

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these continued uncertainties about the larger economy, the University concentrated its efforts this year on identifying and implementing financial strategies that addressed these reservations while achieving University goals.

As you review the University's Statement of Financial Position and Statement of Activities, I encourage you to focus not only on the growth of operating revenues and decline in operating expenses but also the continued shift of the debt portfolio from variable-rate to fixed-rate debt. With interest rates at near record lows, the University also refinanced a portion of its variable-rate debt, increasing the fixed-rate portfolio to 80.6 percent of overall debt, compared to 60.9 percent at the prior fiscal year-end and 24.9 percent at fiscal year-end 2008.

### NEW STANDARDS, EMERGING ISSUES, AND INITIATIVES

#### Financial Accounting Standards Board (“FASB”)

In fiscal year 2010, the FASB released its much anticipated Accounting Standards Codification (ASC). This is now the authoritative source for generally accepted accounting principles (GAAP). The ASC is organized by major topic; each section includes the relevant guidance for that topic. The FASB issues new guidance as Accounting Standards

Updates (ASUs). The consolidated financial statements no longer refer to FASB pronouncements by name or number.

In the current year, the notes to the financial statements include new disclosures in compliance with GAAP. The note on investments (Note 3) provides additional information on both derivatives and those investments whose fair market values are measured using net asset value (NAV). Note 6, on deferred benefits, includes new information about the overall investment strategy for managing pension and post-retirement plan assets. GAAP also requires additional new disclosures on all derivative instruments and, therefore, Note 8, on bonds and notes payable, provides additional disclosures on the debt swaps.

#### Regulatory Environment

On September 17, 2010, the governor of New York signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). As disclosed in Note 13, this will impact the next fiscal year, primarily in the University's classification of net assets. But it will also enable the University to provide payout on true endowment funds that are “under water,” if the payout meets prudence standards.

In addition, the University has continued to enhance its programs and procedures in anticipation of the Federal Trade Commission's originally announced, but not yet implemented, “red flag rules,” as well as to enhance the University's payment card industry (PCI) compliance. Both are important components of overall efforts to mitigate risks associated with security and privacy.

The University has complied with the federal reporting requirements for funds received under the American Recovery and Reinvestment Act (ARRA)—primarily research-related funding. Management also implemented procedures in fiscal year 2010 to comply with the “eVerify” requirement to review the employment eligibility of individuals paid on U.S. government contracts.

#### Initiatives

The University has undertaken a major institutional initiative, called “Reimagining Cornell.” There are many components to this overarching plan, but key among them are proposals for reorganizing delivery of financial transaction processing services, information technology services, and facilities-related services to the campus. New shared service organizations have been designed to provide efficiencies, deliver quality service, and, over time, contain administrative costs.

Another major initiative is the University's implementation on the Ithaca campus of the Kuali Financial System (KFS), an open-source system developed by a partnership of institutions of higher education. In this fiscal year, various teams of subject matter experts, business analysts, communicators, trainers, and programmers devoted their efforts to the goal of implementing KFS at Cornell on July 1, 2011.

Finally, the Ithaca campus continued its strategic sourcing initiative which, over time, is designed to produce significant savings by channeling purchasing dollars to key, selected vendors, which will, in turn, generate better pricing and better service.

## FINANCIAL YEAR IN REVIEW

### Operating Revenue

In the fiscal year ended June 30, 2010, the operating revenues of the University grew by over 10.7 percent, most significantly in sponsored support and donor support. This compares to growth in revenues in the prior fiscal year of less than 1 percent.

Tuition revenue grew by \$44 million, or 6.4 percent, in fiscal year 2010, due primarily to rate increases. Tuition revenue, net of the scholarship allowance, reflects a decline of 3.2 percent from the prior year because of the increase in the scholarship allowance.

Appropriation revenue, as anticipated, continued to decline due to Federal and State budgets. The decline in State support for operations is anticipated to continue because of severe budget constraints, although New York State provided increased support for contract college capital projects which, for the fiscal year ended June 30, 2010, amounted to \$64.5 million, compared to \$26.9 million for the fiscal year ended June 30, 2009. The University records the support as current non-operating revenue if expenditures have already been incurred and as deferred revenue if expenditures have not yet been incurred. Deferred revenue for the State support for capital projects is \$38.7 million at June 30, 2010.

Once again, as a testament to the University's outstanding research faculty, grant and contract revenues increased by \$111.8 million, or 26.0 percent, with approximately \$51 million from American Recovery and Reinvestment Act (ARRA) funding. Indirect cost recoveries increased by \$9.9 million, or 7.8 percent. The growth in indirect cost recoveries is not proportional to the direct revenues for many reasons, but key among them is that expenditures for equipment and facilities are not eligible for indirect cost recoveries. After the latest negotiations, the medical college indirect cost recovery rate increased one percentage point from 68 percent to 69 percent. The Ithaca campus will be negotiating its rates during calendar year 2011, applicable to fiscal year 2012.

The University's donors increased their support substantially in this fiscal year. Contributions for operations were \$189.9 million, double the amount from the prior fiscal year. Contribution revenue for endowment and physical plant is \$253.5 million in this fiscal year, a 124.7 percent increase from the prior year. Contributions for true endowment, included in the \$253.5 million, increased from \$38.7 million in fiscal year 2009 to \$137.6 million in fiscal year 2010. This increase is significant because true endowments provide an important resource base for the University's continued growth. It is important to emphasize that approximately \$308 million, or 66 percent of this year's total contribution revenue, is from pledges that must, under GAAP, be recorded as current-year revenue, even though this revenue does not provide cash. For that reason, the University's budget office does not record a pledge as an available resource until payment is received.

Revenue from investment return distributed for operations remained essentially flat, with approximately \$304.7 million in fiscal year 2010 compared to \$304.1 million in the prior year. In the current year, the payout on shares in the long-term investment pool was \$2.55, compared to \$3.00 in the prior year. This 15.0 percent decrease in payout is offset by an increased number of shares outstanding and associated expenses. The Board has authorized payout for fiscal year 2011 at \$2.20 per share, a 13.7 percent decline from fiscal year 2010, consistent with its planned long-term strategy.

The revenues from the Medical Physician Organization grew at a rate of 10.5 percent in fiscal year 2010, compared to 11.7 percent in the prior year. The revenue growth continues to reflect the expansion of facilities and growth of faculty in key medical and surgical disciplines, such as fertility medicine, that occurred in prior years.

### Operating Expenses

Operating expenses decreased by over \$20.2 million in the fiscal year ended June 30, 2010, or almost 1 percent. More importantly, total compensation and benefit expenses

## LONG-TERM INVESTMENT POOL

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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)

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declined significantly due to the acceptance by more than 400 Ithaca campus employees of the voluntary retirement incentive offered at the end of the last fiscal year. In addition, there was no salary improvement program on the Ithaca campus for fiscal year 2010, as the University focused on its necessary cost containment objectives. Universities are labor intensive and compensation and benefits generally constitute the major factor in overall operating costs. That continues to be the case, but for fiscal year 2010 these costs are 62.7 percent of total operating expenses, compared to 65.3 percent for the prior fiscal year.

The 8.5 percent increase in expenses for purchased services reflects increased costs for consulting services, and nursing and other technical services obtained by the medical college from the New York Presbyterian Hospital. The 6.6 percent increase in supplies and general expense for this fiscal year is based primarily on charges for bad debt reserves at the medical college. In fiscal year 2010, the medical college incurred a charge of \$18.3 million to establish a reserve for receivables from affiliated institutions primarily to cover "older invoices." The medical college also increased its reserve for grants and contracts and patient receivables.

The \$33.7 million increase in interest expense is a direct result of the University's increase of \$500 million in taxable debt and \$305 million in tax-exempt financing in the prior fiscal year. The decrease in utility costs reflects a decline in the market price of electricity during fiscal year 2010, decreases in heating costs due to weather, and the emerging trend of reduced costs due to many energy conservation initiatives across campus.

#### Non-Operating Revenues and Expenses

In fiscal year 2010, the University's change in net assets from non-operating activity is an increase of \$490.6 million, compared to a \$1.8 billion dollar loss in fiscal year 2009. The strong results for the current year are based on the performance of the investment portfolio and the increased generosity of the University's donors, who supported both construction projects and endowment.

Miscellaneous non-operating income and expense is identified on the Statement of Activities as "Other." In the fiscal year ended June 30, 2010, these expenses declined due to a decline in the incremental expense associated with the debt swaps and the recognition of non-operating income from a portion of the proceeds from a patent infringement case.

#### Statement of Financial Position

The Statement of Financial Position enables the reader to review the financial history of the University over time, particularly net assets, which represents the University's accumulated wealth since inception. In the current year, net assets are \$6.7 billion, a 10.3 percent increase from the prior year. For Cornell and other universities that have major endowments and investment portfolios, the growth or decline of the investment portfolio has a significant, albeit not singular, impact on the growth or decline in net assets.

#### Assets

In fiscal year ended June 30, 2010, the University's total assets increased by \$880.2 million, or 9.7 percent, from the prior year. The most significant increases were in the two major components of total assets: Investments and Land, and Buildings and Equipment.

The University's cash and cash equivalents declined by \$93.6 million, or 48.3 percent. Cash equivalents are those short-term investments that are, at the time of purchase, scheduled to mature within 90 days. These short-term investments are reclassified as cash and cash equivalents to comply with GAAP, and generally account for any major fluctuation in "cash" from year to year.

Accounts receivable net of the allowance for doubtful accounts increased by \$72.6 million or 22.9 percent. The Table in Note 2 provides information on the various components of the receivable balance. The major increase in grants and contract receivables, patient receivables, and the New York receivable for capital projects are related to overall increased revenues, although the \$38.7 million receivable from New York State is recorded as deferred, rather

2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
\$ 3,288.0	\$ 3,043.9	\$ 2,750.4	\$ 2,720.8	\$ 3,070.2	\$ 3,623.2	\$ 4,180.4	\$ 5,197.5	\$ 5,378.1	\$ 3,794.3
135.4	132.5	124.3	88.9	234.8	202.0	128.7	236.8	190.5	573.9
(84.6)	(110.5)	(128.1)	(116.4)	(37.1)	(33.7)	(125.1)	(130.1)	(340.9)	(578.7)
(294.9)	(315.5)	(25.8)	376.9	355.3	388.9	1013.5	73.9	(1433.4)	433.7
<u>\$ 3,043.9</u>	<u>\$ 2,750.4</u>	<u>\$ 2,720.8</u>	<u>\$ 3,070.2</u>	<u>\$ 3,623.2</u>	<u>\$ 4,180.4</u>	<u>\$ 5,197.5</u>	<u>\$ 5,378.1</u>	<u>\$ 3,794.3</u>	<u>\$ 4,223.2</u>
<u>\$ 51.85</u>	<u>\$ 44.95</u>	<u>\$ 42.65</u>	<u>\$ 46.51</u>	<u>\$ 50.11</u>	<u>\$ 55.42</u>	<u>\$ 66.62</u>	<u>\$ 65.37</u>	<u>\$ 45.12</u>	<u>\$ 47.38</u>

than current, revenue. The receivable for collateral related to the interest rate swaps increased because the University is required to deposit collateral when the fair market value adjustment for certain swaps creates a significant increase in the debt swap liability. The significant increase in the other receivable is based on increased billings for various unit-level activities and a receivable for proceeds from the intellectual property settlement not yet received. Gross receivables grew by 29.1 percent, but net receivables by only 22.9 percent. The difference is because of the substantial increase in the allowance for doubtful accounts, primarily associated with the receivables from affiliated institutions.

The value of the University's overall investment portfolio increased by 11.0 percent. More importantly, the University's investment strategy returned 12.6 percent for its long-term investment portfolio, benefiting from strong returns in both equity and credit markets. The return on the University's long-term investment portfolio is based on investment returns prior to any adjustment for payout and distributions. Another asset affected by the market is funds held in trust by others; its 6.3 percent increase is based almost entirely on fair market value adjustments.

The University's fixed assets increased by \$209.8 million in the fiscal year ended June 30, 2010, which represents an increase of 7.4 percent from the prior fiscal year. The rate of increase, however, is less rapid than in prior years. Many major projects were completed in the fiscal year ended June 30, 2010, the largest of which were the Olin Hall infrastructure upgrade, the School of Hotel Administration's Fly Tower, the Uris Hall Animal Facility, the Ives renovation, and the combined heat and power project referred to as CCHP. The latter project, which enables heat and electricity to be generated together using significantly less energy, is important because it provides evidence of the University's commitment to sustainability. There are also significant capital projects in progress, such as the Physical Sciences Building, Milstein Hall, the Animal Health Diagnostic Lab, and the Martha Van Rensselaer renovation.

### Liabilities

In fiscal year 2010, the University's liabilities grew by 8.5 percent. Accounts payable and accrued expenses increased by 13.9 percent, due primarily to the \$59.6 million increase in the fair market value adjustment for debt swaps, recorded on the statement of financial position as an increase in accrued expense.

Deferred revenue and other liabilities decreased by 16.2 percent from the prior fiscal year, but this overall decrease consists of increases in deferred revenue offset by a major decrease in other liabilities. Deferred revenue increased because of support from the State of New York for capital projects previously described. There was also an increase of approximately \$38 million related to premiums received as part of the 2010 bond financing and refinancing. At June 30, 2010, the University had no outstanding debt related

to the University's two lines of credit, compared to \$104 million at June 30, 2009, and this accounted for the significant decrease in other liabilities.

Deferred benefits increased by \$17.6 million, based on increases in workers' compensation, increases in other liabilities for deferred compensation, and a modest increase in the liability for post-retirement pension and medical benefits.

The net increase of \$225 million in bonds and notes payable at June 30, 2010 consists of an increase of \$285 million in tax-exempt debt for the Medical Research Program at the medical college, and a reduction in liabilities for the principal paid on debt in fiscal year 2010.

### Summary

I hope this review of the University's financial results for the fiscal year ended June 30, 2010 highlights challenges, initiatives, and accomplishments. The University's finance-related initiatives planned and/or begun in this fiscal year are designed to help ensure the University's ongoing financial strength for providing financial aid to its students, and achieving continued excellence in the University's delivery of education, research, and public service.



Anne Shapiro  
University Controller



## MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

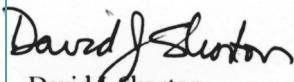
The management of Cornell University is responsible for the preparation, integrity and fair presentation of the consolidated financial statements that have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management.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

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

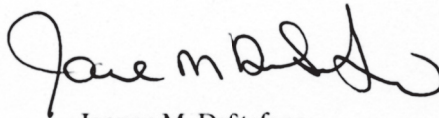
The University maintains a system of internal controls over financial reporting that is designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment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

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

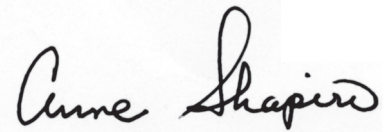
The Board of Trustees of Cornell University, through its Audit Committee, are responsible for engaging independent accountants and meeting with management, internal auditors, and the independent accountants to ensure that all are carrying out their responsibilities. Both internal auditors and the independent accountants have full and free access to the Audit Committee.



David J. Skorton  
President  
Cornell University



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



Anne Shapiro  
University Controller

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## Independent Auditors' Report

The Board of Trustees of Cornell University:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities, and of cash flows, present fairly, in all material respects, the financial position of Cornell University at June 30, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Cornell University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Cornell University's June 30, 2009 financial statements, and in our report dated October 1, 2009, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



October 29, 2010  
Rochester, New York



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2010 (in thousands)**

(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2009)

	2010	2009
<b>Assets</b>		
1 Cash and cash equivalents	\$ 100,168	\$ 193,739
2 Collateral for securities loaned	23,247	24,970
3 Accounts receivable, net (note 2-A)	386,554	314,494
4 Contributions receivable, net (note 2-B)	557,926	425,375
5 Inventories and prepaid expenses	48,556	51,929
6 Student loans receivable, net (note 2-C)	69,994	70,535
7 Investments (note 3)	5,633,184	5,073,854
8 Land, buildings, and equipment, net (note 4)	3,056,633	2,846,850
9 Funds held in trust by others (note 5)	97,270	91,514
10 Total assets	<u>\$ 9,973,532</u>	<u>\$ 9,093,260</u>
<b>Liabilities</b>		
11 Accounts payable and accrued expenses	\$ 421,385	\$ 370,099
12 Payable under securities loan agreements	25,685	27,408
13 Deferred revenue and other liabilities (note 8-D)	203,060	242,409
14 Obligations under split interest agreements (note 5)	108,703	105,476
15 Deferred benefits (note 6)	447,481	429,792
16 Funds held in trust for others (note 7)	92,325	93,652
17 Bonds and notes payable (note 8)	1,930,582	1,705,378
18 Government advances for student loans	47,353	46,536
19 Total liabilities	<u>3,276,574</u>	<u>3,020,750</u>
<b>Net assets (note 11)</b>		
20 Unrestricted	3,508,534	3,186,340
21 Temporarily restricted	971,503	856,515
22 Permanently restricted	2,216,921	2,029,655
23 Total net assets	<u>6,696,958</u>	<u>6,072,510</u>
24 Total liabilities and net assets	<u>\$ 9,973,532</u>	<u>\$ 9,093,260</u>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010 (in thousands)**

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)

	Unrestricted	Temporarily Restricted
<b>Operating revenues</b>		
1 Tuition and fees	\$ 741,836	\$ -
2 Scholarship allowance	(280,300)	-
3 Net tuition and fees	461,536	-
4 State and federal appropriations	176,559	-
5 Grants, contracts and similar agreements		
6 Direct	542,234	-
7 Indirect cost recoveries	137,258	-
8 Contributions	77,644	112,293
9 Investment return, distributed (note 3-A)	218,938	85,811
10 Medical Physician Organization	557,179	-
11 Auxiliary enterprises	152,440	-
12 Educational activities and other sales and services	416,207	16
13 Net assets released from restrictions	146,049	(146,049)
14 Total operating revenues	2,886,044	52,071
<b>Operating expenses (note 10)</b>		
15 Compensation and benefits	1,758,101	-
16 Purchased services	135,045	-
17 Supplies and general	530,721	-
18 Utilities, rents and taxes	141,377	-
19 Interest expense (note 8)	59,791	-
20 Depreciation	179,234	-
21 Total operating expenses	2,804,269	-
22 Change in net assets from operating activities	81,775	52,071
<b>Nonoperating revenues and (expenses)</b>		
23 State and federal appropriations for capital acquisitions	25,824	-
24 Grants, contracts and similar agreements for capital acquisitions	-	-
25 Contributions for capital acquisitions, trusts and endowments	28,872	87,024
26 Investment return, net of amount distributed (note 3-A)	220,178	6,158
27 Change in value of split interest agreements	5,586	6,421
28 Pension and postretirement changes other than net periodic costs (note 6-C)	(5,608)	-
29 Other	(50,478)	-
30 Net asset released for capital acquisitions and reclassifications	16,045	(36,686)
31 Change in net assets from nonoperating activities	240,419	62,917
32 Change in net assets	322,194	114,988
33 Net assets, beginning of the year	3,186,340	856,515
34 Net assets, end of the year	\$ 3,508,534	\$ 971,503

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

Permanently Restricted	2010 Total	2009 Total	
\$ -	\$ 741,836	\$ 697,493	1
-	(280,300)	(220,522)	2
-	461,536	476,971	3
-	176,559	182,371	4
-	-	-	5
-	542,234	430,408	6
-	137,258	127,316	7
-	189,937	94,625	8
-	304,749	304,111	9
-	557,179	504,092	10
-	152,440	145,502	11
-	416,223	388,744	12
-	-	-	13
-	2,938,115	2,654,140	14
-	1,758,101	1,845,274	15
-	135,045	124,471	16
-	530,721	497,728	17
-	141,377	152,941	18
-	59,791	26,041	19
-	179,234	178,046	20
-	2,804,269	2,824,501	21
-	133,846	(170,361)	22
-	25,824	26,896	23
-	-	-	24
137,654	253,550	112,830	25
24,772	251,108	(1,811,607)	26
4,199	16,206	(22,241)	27
-	(5,608)	(4,815)	28
-	(50,478)	(96,847)	29
20,641	-	-	30
187,266	490,602	(1,795,784)	31
187,266	624,448	(1,966,145)	32
2,029,655	6,072,510	8,038,655	33
\$ 2,216,921	\$ 6,696,958	\$ 6,072,510	34

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2010 (in thousands)**

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)

	2010	2009
<b>Cash flows from operating activities</b>		
1 Change in net assets	\$ 624,448	\$ (1,966,145)
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities		
2 Contributions for capital acquisitions, trusts and endowments	(251,687)	(99,193)
3 Depreciation	179,234	178,046
4 Net realized and unrealized (gain)/loss on investments	(463,047)	1,578,212
5 Pension and postretirement changes other than net periodic costs	5,608	4,815
6 Change in value of interest rate swaps	73,948	90,162
7 Other adjustments	3,132	(11,478)
Change in assets and liabilities		
8 Accounts receivable, net	(72,060)	(37,603)
9 Contributions receivable, net	(132,551)	241,442
10 Inventories and prepaid expenses	7,589	18,153
11 Accounts payable and accrued expenses	(22,662)	(26,717)
12 Deferred revenue and other liabilities	(39,349)	(56,874)
13 Change in obligations under split interest agreements	(2,529)	(8,674)
14 Deferred benefits	12,081	(61)
15 Net cash provided/(used) by operating activities	<u>(77,845)</u>	<u>(95,915)</u>
<b>Cash flows from investing activities</b>		
16 Proceeds from the sale and maturities of investments	21,438,356	13,362,173
17 Purchase of investments	(21,534,640)	(13,462,513)
18 Acquisition of land, buildings, and equipment (net)	(392,956)	(397,502)
19 Student loans granted	(8,507)	(7,385)
20 Student loans repaid	9,856	9,448
21 Change in funds held in trust for others	(1,327)	(53,384)
22 Net cash used by investing activities	<u>(489,218)</u>	<u>(549,163)</u>
<b>Cash flows from financing activities</b>		
Contributions restricted to		
23 Investment in endowments	155,383	79,046
24 Investment in physical plant	93,826	22,032
25 Investment subject to living trust agreements	2,478	(1,885)
26 Principal payments of bonds and notes payable	(74,156)	(178,315)
27 Proceeds from issuance of bonds and notes payable	299,360	884,523
28 Bond issuance costs incurred	(4,216)	(7,253)
29 Government advances for student loans	817	(610)
30 Net cash provided by financing activities	<u>473,492</u>	<u>797,538</u>
31 Net change in cash and cash equivalents	(93,571)	152,460
32 Cash and cash equivalents, beginning of year	193,739	41,279
33 Cash and cash equivalents, end of year	<u>\$ 100,168</u>	<u>\$ 193,739</u>
<b>Supplemental disclosure of cash flow information</b>		
34 Cash paid for interest	\$ 67,630	\$ 40,820

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

### A. Description of the Organization

Cornell University (“the University”) consists of three major organizational units: Endowed Ithaca, which includes the endowed colleges, the central University administration, and the enterprise and service operations for the Ithaca campus; Contract Colleges at Ithaca (colleges operated by the University on behalf of New York State); and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences (“the Medical College”) in New York City. These three units are subject to the common administrative authority and control of the Cornell University Board of Trustees, but generally operate as financially discrete entities. The laws establishing the Contract Colleges at Ithaca prohibit other units of the University from using funds attributable to those colleges. Except as specifically required by law, the contract and endowed colleges at Ithaca are, to the extent practicable, governed by common management principles and policies determined at the private discretion of the University. In addition to the three major organizational units, the University’s subsidiaries and certain affiliated organizations are included in the consolidated financial statements. All significant intercompany transactions and balances are eliminated in the accompanying consolidated financial statements.

### B. Basis of Presentation

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

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

Temporarily restricted net assets include gifts, pledges, trusts, income, and gains that can be expended, but for which the donor restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (e.g., future capital projects, pledges to be paid in the future, life income funds). Expiration of donor restrictions is reported in the consolidated statement of activities as a reclassification from temporarily restricted net assets to unrestricted net assets on the net assets released from restrictions lines.

Unrestricted net assets are the remaining net assets of the University, including appreciation on true endowments where the donor restrictions are deemed to have been met.



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

### C. Cash and Cash Equivalents

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

### D. Collateral for Securities Loaned

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

### E. Contributions

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

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

### F. Investments

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

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

### G. Derivative Instruments

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 nonoperating investment return in the consolidated statement of activities.

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

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

#### **H. Land, Buildings, and Equipment**

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

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

#### **I. Funds Held in Trust by Others**

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

#### **J. Split Interest Agreements**

The University's split interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and charitable trusts for which the University serves as trustee. Assets held in trust are either separately invested or included in the University's investment pools in accordance with the agreements. Contribution revenue and the assets related to split interest agreements, net of related liabilities, are classified as increases in temporarily restricted net assets or permanently restricted net assets. Liabilities associated with charitable gift annuities and charitable remainder trusts represent the present value of the expected payments to the beneficiaries based on the terms of the agreements. Pooled income funds are recognized at the net present value of the net assets expected at a future date. Gains or losses resulting from changes in fair value, changes in assumptions and amortization of the discount are recorded as changes in value of split interest agreements in the appropriate restriction categories in the nonoperating section of the consolidated statement of activities.

#### **K. Endowments**

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

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

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

The University's investment objective for its endowment assets is to maximize total return within reasonable risk parameters, specifically, to achieve a total return, net of expenses, of at least 5 percent in excess of inflation, as measured by the Consumer Price Index over rolling five-year periods. The achievement of favorable investment returns enables the University to distribute increasing amounts over time from the endowment so that present and future needs can be treated equitably in inflation-adjusted terms.

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

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

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

#### **L. Sponsored Agreements**

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

#### **M. Medical Physician Organization**

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

#### **N. Use of Estimates**

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

#### **O. Comparative Financial Information**

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

#### **P. Accounting Pronouncements**

The Financial Accounting Standards Board (FASB), in June 2009, established the Accounting Standards Codification (ASC) as the authoritative source for U.S. generally accepted accounting principles. The codification did not affect the content or application of GAAP that was in effect and had no material impact on the consolidated financial statements. The University followed the guidance in the ASC in preparing its consolidated financial statements for fiscal year ended June 30, 2010 and no longer references FASB announcements in the statements by the former names and numbers.

Effective for the fiscal year ended June 30, 2010, the University adopted additional disclosures related to the fair value measurements of investments in certain entities that calculate a net asset value per share. The guidance permits investors to use Net Asset Value (NAV) as a practical expedient for fair value where the investment companies follow the AICPA Guide in arriving at their reported NAV. The required disclosures are included in Note 3.

In accordance with GAAP, the University also adopted additional disclosures about derivative instruments and hedging activities that provides information about how and why derivatives are used, and tabular disclosures about the effect of derivatives on the consolidated financial statements. These required disclosures are included in Note 3 and Note 8.

Finally, the University adopted new disclosures required of employers about their postretirement benefit plan assets. Under this guidance, the University provides more detail about the fair value of each major category of pension and postretirement plan assets according to the fair value hierarchy. The required disclosures are included in Note 6.

#### Q. Reclassifications

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

#### R. Income Taxes

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes on related income pursuant to the appropriate sections of the Internal Revenue Code. In accordance with the accounting standards, the University evaluates its income tax positions each fiscal year to determine whether the University's tax 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

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

<u>SUMMARY OF ACCOUNTS RECEIVABLE</u>		
	<u>2010</u>	<u>2009</u>
Grants and contracts	\$ 137,902	\$ 100,247
Collateral related to interest rate swap agreements	29,048	20,341
New York Presbyterian Hospital and other affiliates	53,818	69,658
Patients (net of contractual allowances)	81,094	68,955
State of New York for capital projects	38,717	28,850
Student accounts	6,225	8,884
Other	91,458	42,650
Gross accounts receivable	<u>\$ 438,262</u>	<u>\$ 339,585</u>
Less: allowance for doubtful accounts	<u>(51,708)</u>	<u>(25,091)</u>
Net accounts receivable	<u>\$ 386,554</u>	<u>\$ 314,494</u>

The patient accounts receivable for medical services was comprised of the following at June 30, 2010 and 2009, respectively: commercial third parties 56.1 percent and 56.8 percent; federal/state government 18.2 percent and 16.7 percent; and patients 25.7 percent and 26.5 percent.

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

**B. Contributions Receivable**

Unconditional promises to give, or pledges, are recorded in the consolidated financial statements at present value using discount rates ranging from 3.4 percent to 7 percent. Contributions are expected to be realized as follows:

**SUMMARY OF CONTRIBUTIONS RECEIVABLE**

	<b>2010</b>	<b>2009</b>
Less than one year	\$ 235,438	\$ 179,825
Between one and five years	294,494	259,448
More than five years	210,195	121,473
Gross contributions receivable	\$ 740,127	\$ 560,746
Less: unamortized discount	(123,562)	(96,531)
Less: allowance for uncollectible amounts	(58,639)	(38,840)
Net contributions receivable	\$ 557,926	\$ 425,375

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

**EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE**

	<b>2010</b>	<b>2009</b>
Support of University operations	\$ 163,662	\$ 137,140
Capital purposes	188,837	133,723
Endowments and similar funds	205,427	154,512
Net contributions receivable	\$ 557,926	\$ 425,375

At June 30, 2010 and 2009, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions, were approximately \$231,427 and \$196,889, respectively.

**C. Student Loans Receivable**

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

**SUMMARY OF STUDENT LOANS RECEIVABLE**

	<b>2010</b>	<b>2009</b>
Federal revolving loans	\$ 44,731	\$ 46,267
Institutional loans	30,431	30,243
Gross student loans receivable	\$ 75,162	\$ 76,510
Less: allowance for doubtful accounts	(5,168)	(5,975)
Net student loans receivable	\$ 69,994	\$ 70,535

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

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

**3. INVESTMENTS****A. General Information**

The University's investments are overseen by the Investment Committee of the Board of Trustees. The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the world equity, fixed income, commodities, real estate, and private equity markets. Based on guidelines



established by the Investment Committee, the University's Investment Office directs the investment of endowment and trust assets, certain working capital, and temporarily invested expendable funds.

The University has categorized its investment assets in accordance with the fair value measurement hierarchy. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for investment assets measured at fair value on a recurring basis.

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

Fair value for Level 2 is based 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.

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

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

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.

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

#### INVESTMENTS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2010 Total	2009 Total
Cash and cash equivalents	\$ 227,653	\$ 104,150	\$ -	\$ 331,803	\$ 556,339
Derivatives	2,539	(2,011)	-	528	9,704
Domestic equities	210,611	137,449	1,634	349,694	129,419
Fixed income	1,011,434	566,048	359,530	1,937,012	1,254,375
Foreign equities	306,842	40,237	25,152	372,231	226,912
Hedged equities	-	297,438	167,522	464,960	763,745
Marketable alternatives	32	82,391	524,654	607,077	740,808
Private equities	-	-	860,788	860,788	736,633
Real assets	-	-	721,732	721,732	584,039
Receivable for Investments Sold	2,977	-	-	2,977	37,431
Payable for Investments Purchased	(73,539)	-	-	(73,539)	(16,649)
Other	-	-	57,921	57,921	51,098
<b>Total investments</b>	<b>\$ 1,688,549</b>	<b>\$ 1,225,702</b>	<b>\$ 2,718,933</b>	<b>\$ 5,633,184</b>	<b>\$ 5,073,854</b>
Securities not included in investment portfolio					
Cash and cash equivalents	\$ 58,156	\$ -	\$ -	\$ 58,156	\$ 173,347
Collateral for securities loaned	\$ -	\$ 23,247	\$ -	\$ 23,247	\$ 24,970

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

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

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITY

	Fair value at June 30, 2009	Realized gains/(losses)	Unrealized gains/(losses)	Net purchases, sales, settlements	Transfers in/(out) of Level 3	Fair value at June 30, 2010
Derivatives	\$ 1,614	\$ -	\$ -	\$ -	\$ (1,614)	\$ -
Domestic equities	13,628	28,485	(40,100)	75	(454)	1,634
Fixed income	354,964	8,661	84,071	(57,535)	(30,631)	359,530
Foreign equities	44,845	739	8,014	1,698	(30,144)	25,152
Hedged equities	747,315	53,870	2,295	(338,520)	(297,438)	167,522
Marketable alternatives	740,808	80,810	42,293	(256,866)	(82,391)	524,654
Private equities	736,633	31,456	76,957	15,742	-	860,788
Real assets	584,039	9,495	34,139	94,059	-	721,732
Other	51,098	-	1,205	156	5,462	57,921
Total Level 3 investments	\$ 3,274,944	\$ 213,516	\$ 208,874	\$ (541,191)	\$ (437,210)	\$ 2,718,933

All net realized and unrealized gains/(losses) in the table above are reflected in the accompanying consolidated statement of activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30, 2010.

Under the terms of certain limited partnership agreements, the University is obligated to make additional capital contributions up to contractual levels. At June 30, 2010 and 2009, the University had commitments of \$840,144 and \$1,067,403, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses.

Under terms of certain options contracts on interest rate swaps, the University is obligated to make future premium payments. At June 30, 2010 and 2009, the University had premium payment commitments of \$27,674 and \$8,999, respectively. The University's premium payment schedule is as follows: \$6,235 annually for the years ended June 30, 2011, 2012, and 2013; \$5,235 for the year ended June 30, 2014, and \$3,735 thereafter.

The University maintains a number of investment pools or categories for specified purposes, the most significant of which are the Long-Term Investment Pool (LTIP), described below, and several funds established to maximize total return derived from the investment of intermediate-term cash balances. The fair values as of June 30 were as follows:

INVESTMENTS POOLS/CATEGORIES AT FAIR VALUE

	2010	2009
Working capital	\$ -	\$ 1,185
Intermediate-term	605,794	625,261
Long-term investment pool (LTIP)	4,223,208	3,794,336
Separately invested portfolio	477,033	444,266
Pooled life income funds	12,048	10,042
DASNY Holdings	296,563	156,372
Other	18,538	42,392
Total	\$ 5,633,184	\$ 5,073,854

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

#### SUMMARY OF INVESTMENT RETURN

	<u>2010</u>	<u>2009</u>
Interest and dividends, net of investment fees	\$ 92,810	\$ 70,716
Net realized gain/(loss)	217,096	(499,093)
Net unrealized gain/(loss)	245,951	(1,079,119)
Total investment return	<u>\$ 555,857</u>	<u>\$ (1,507,496)</u>
LTIP distributions for operations	\$ 267,535	\$ 256,617
PBIF distributions for operations	3,202	34,681
Trust and other income for operations	34,012	12,813
Investment return, distributed	<u>\$ 304,749</u>	<u>\$ 304,111</u>
Investment return, undistributed	251,108	(1,811,607)
Total investment return	<u>\$ 555,857</u>	<u>\$ (1,507,496)</u>

#### B. Long-Term Investment Pool

The LTIP is a mutual fund-like vehicle used for investing the University's true endowment funds, funds functioning as endowment, and other funds that are not expected to be expended for at least three years. The University employs a unit method of accounting for the LTIP. Each participating fund enters into and withdraws from the pooled investment account based on monthly unit fair values. At June 30, 2010 and 2009, the fair values per unit were \$47.38 and \$45.12, respectively. The total return on the University's long-term investments, of which the LTIP is the major component, was 12.6 percent for the fiscal year ended June 30, 2010. The changes in the fair value and cost of the LTIP and information about its participating units as of June 30, 2010 and 2009 are as follows:

#### SUMMARY INFORMATION - LONG-TERM INVESTMENT POOL

	<u>Fair value</u>	<u>Cost</u>	<u>Appreciation/ (depreciation)</u>	<u>Fair value per unit</u>	<u>Number of units</u>
End of year	\$ 4,223,208	\$ 3,865,716	\$ 357,492	\$ 47.38	89,137,470
Beginning of year	\$ 3,794,336	\$ 3,671,369	\$ 122,967	\$ 45.12	84,095,359
Unrealized net gain/(loss) for year			<u>\$ 234,525</u>		
Realized net gain/(loss) for year			<u>\$ 199,130</u>		
Net gain/(loss) for year			<u>\$ 433,655</u>		

For the fiscal year ended June 30, 2010, investment payout to participating funds totaled \$217,152 (\$2.55 per unit) of which \$192,682 was paid out for the University's operations, with the balance in the amount of \$24,470 either returned to principal or distributed to funds held for others. The payout for the fiscal year ended June 30, 2010 was comprised of \$18,882 in net investment income and \$198,270 paid from accumulated gains. For the fiscal year ended June 30, 2009, the investment payout was \$250,681 (\$3.00 per unit), and was comprised of \$13,097 in net investment income and \$237,584 paid from accumulated gains.

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

The University maintains a category of assets referred to as the separately invested portfolio. This category consists of assets that, for legal or other reasons, or by request of the donor, could not participate in any of the investment pools.

Life income fund pools consist of donated funds, the income from which is payable to one or more beneficiaries during their lifetime. On the termination of life interests, the principal is available for University purposes, which may or may not be restricted by the donors.

University funds on deposit at DASNY consist of reserves for retirement of debt and bond proceeds not yet expended. The total funds on deposit are \$296,563 and \$156,372 as of June 30, 2010 and 2009, respectively. The amount of bond proceeds not yet expended included in the total reserves at DASNY are \$266,704 and \$126,873 as of June 30, 2010 and 2009, respectively.

**D. 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 exposures, and to obtain protection against increases in interest rates. These derivatives, based on definitions in GAAP, are not designated as hedging instruments.

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

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

Some investment managers have discretion, limited by overall investment guidelines, to use derivative instruments to create investment exposures that could not be created as efficiently with other types of investments. These synthetic exposures in the University's portfolio as of June 30, 2010 are 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 fixed income portfolio to interest rate volatility.

The University entered into option contracts on interest rates swaps as a way to mitigate the impact of a significant rise in interest rates in the future.

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

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

Location	Derivative type	2010			2009		
		Notional amount	# of Contracts	Level 2 fair value	Notional amount	# of Contracts	Level 2 fair value
Investments	Foreign currency	\$ -	78	\$ 6,052	\$ -	33	\$ 1,509
	Commodity	195,587	53	(3,581)	70,989	21	908
	Synthetic	49,914	41	(195)	96,592	19	720
	Interest rate	1,937,668	4	(1,748)	1,515,000	1	6,567
	Total fair value	\$ 2,183,169	176	\$ 528	\$ 1,682,581	74	\$ 9,704

**EFFECT OF DERIVATIVE HOLDINGS ON STATEMENT OF ACTIVITIES**

Location	Derivative Type	2010	2009
		Unrealized gain/(loss)	Unrealized gain/(loss)
Investment return, net of amount distributed			
	Foreign currency	\$ 6,052	\$ 1,509
	Commodity	(3,581)	908
	Synthetic	(36)	805
	Interest rate	(7,567)	5,567
	Total unrealized gain/(loss)	\$ (5,132)	\$ 8,789

The unrealized gain or loss from derivative holdings affect unrestricted net assets, and in the consolidated statement of cash flows, are a component of the net realized and unrealized gain/loss on investments line in the operating activities section.

**E. Alternative Investments Measured Using Net Asset Value**

The University uses the NAV to determine the fair value of all alternative investments which 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 following tables list investments in investment companies (in partnership or equivalent format) by major category:

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

Asset class	Strategy	NAV in funds	Remaining life	Unfunded commitments	Timing to draw commitments
Private equities	Buyout	\$ 326,719		\$ 162,814	
	Special situation	242,337		152,190	
	Venture capital	268,536		132,033	
	Total private equities	\$ 837,592	1 to 10 years	\$ 447,037	1 to 10 years
Real assets	Real estate	495,888		176,844	
	Natural resource	204,157		106,080	
	Total real assets	\$ 700,045	1 to 8 years	\$ 282,924	1 to 8 years
Fixed income	Distressed	161,947		23,070	
	Leveraged loans	76,268		-	
	Mezzanine	56,255		75,113	
	Multi-strategy	80,155		12,000	
	Total fixed income	\$ 374,625	1 to 10 years	\$ 110,183	1 to 10 years
Foreign equities	Emerging markets	50,572			
	Global equities	4,724			
	Total foreign equities	\$ 55,296			
Hedged equities	Global equities long/short	191,665			
	U.S. equities long/short	273,294			
	Total hedged equities	\$ 464,959			
Marketable alternatives	Event driven	77,562			
	Global macro	28,512			
	Multi-strategy	171,798			
	Relative value	83,103			
	Special opportunity	246,070			
	Total marketable	\$ 607,045			
Total for alternative investments using NAV		\$ 3,039,562		\$ 840,144	

**REDEMPTION INFORMATION FOR ALTERNATIVE INVESTMENTS MEASURED USING NET ASSET VALUE**

Asset class	Redemption Terms	Redemption Restrictions*
Private equities	Funds are in private equity structure, with no ability to be redeemed	n/a
Real assets	Funds are in private equity structure, with no ability to be redeemed	n/a
Fixed income	93% of NAV is in private equity structure, with no ability to be redeemed 7% have ranges between quarterly redemption with 45 days notice, to annual redemption with 90 days notice	No lock up provisions
Foreign equities	Ranges between monthly redemption with 30 days notice, to triennial redemption with 30 days notice	No lock up provisions
Hedged equities	Ranges between monthly redemption with 10 days notice, to triennial redemption with 45 days notice	7% of NAV has remaining lock up provisions ranging from 6 months to 12 months
Marketable alternatives	Ranges between quarterly redemption with 30 days notice, to triennial redemption with 90 days notice	47% of NAV has remaining lock up provisions ranging from 3 months to 6 months

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

Investments which can be redeemed at NAV by the University on the measurement date or in the near term, 90 days or less, are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. The new guidance did not materially affect the University's consolidated financial statements.

As a result of adopting the new guidance for estimating fair value of investments, certain investments have been reclassified as Level 2 assets subject to criteria described above based upon the year end recorded amounts. The amounts reclassified to Level 2 are as follows: fixed income \$25,169; foreign equity \$30,144; hedged equity \$297,438; marketable alternatives \$82,391.

**4. LAND, BUILDINGS, AND EQUIPMENT**

Land, buildings, and equipment are detailed as follows:

LAND, BUILDINGS, AND EQUIPMENT

	Book value at June 30, 2009	Additions	Disposals and closed projects	Book value at June 30, 2010
Land, buildings, and equipment	\$ 3,207,817	\$ 183,284	\$ (1,277)	\$ 3,389,824
Furniture, equipment, books, and collections	972,383	128,702	(28,884)	\$ 1,072,201
Construction in progress	424,248	274,693	(191,990)	\$ 506,951
Total before accumulated depreciation	\$ 4,604,448	\$ 586,679	\$ (222,151)	\$ 4,968,976
Accumulated depreciation	(1,757,598)			(1,912,343)
Net land, buildings, and equipment	\$ 2,846,850			\$ 3,056,633

Certain properties to which the University does not have title are included in physical assets at net book values, as follows: (1) land, buildings, and equipment of the Contract Colleges aggregating \$478,424 and \$428,431 at June 30, 2010 and 2009, 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 \$18,100 and \$13,842 at June 30, 2010 and 2009, respectively.

The future commitments on capital projects in progress at June 30, 2010, excluding projects funded by New York State, is \$172,468.

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

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

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

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

SPLIT INTEREST AGREEMENTS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2010 Total	2009 Total
Funds held in trust by others					
Remainder	\$ -	\$ -	\$ 62,735	\$ 62,735	\$ 56,515
Lead and perpetual	-	-	34,535	34,535	34,999
Total funds held in trust by others	\$ -	\$ -	\$ 97,270	\$ 97,270	\$ 91,514
Obligations under split interest agreements	\$ -	\$ -	\$ 108,703	\$ 108,703	\$ 105,476

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

	Fair value at June 30, 2009	Realized gains/(losses)	Unrealized gains/(losses)	Net purchases, sales, settlements	Transfers in/(out) of Level 3	Fair value at June 30, 2010
Funds held in trust by others						
Remainder	\$ 56,515	\$ -	\$ 5,599	\$ 621	\$ -	\$ 62,735
Lead and perpetual	34,999	(382)	21	(103)	-	34,535
Total funds held in trust by others	\$ 91,514	\$ (382)	\$ 5,620	\$ 518	\$ -	\$ 97,270
Obligations under split interest agreements	\$ 105,476	\$ -	\$ 3,227	\$ -	\$ -	\$ 108,703

**6. DEFERRED BENEFITS****A. General Information**

Accrued employee benefit obligations as of June 30 include:

**SUMMARY OF DEFERRED BENEFITS**

	2010	2009
Postemployment benefits	\$ 26,916	\$ 24,421
Pension and other postretirement benefits	259,038	250,910
Other deferred benefits	161,527	154,461
Total deferred benefits	\$ 447,481	\$ 429,792

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

**B. Pension and Postretirement Plans**

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

The primary defined contribution plans for Endowed Ithaca and for exempt employees (those not subject to the overtime provisions of the Fair Labor Standards Act) at the Medical College are carried by the Teachers Insurance and Annuity Association, the College Retirement Equities Fund, the Vanguard Group (Medical College only), and Fidelity Investments (Endowed Ithaca only), all of which permit employee contributions. Total pension costs of the Endowed Ithaca and Medical College plans for the fiscal years ended June 30, 2010 and 2009 amounted to \$81,328 and \$86,959, respectively.

The Medical College maintains the University's only defined benefit plan. The participants include non-exempt employees at the Medical College who meet the eligibility requirements for participation. The plan was frozen in 1976 for exempt employees at the Medical College and the accrued benefits were merged with the active non-exempt retirement plan in 1989. In accordance with Employee Retirement Income Security Act (ERISA) requirements for the defined benefit plans, the University must fund annually with an independent trustee an actuarially determined amount that represents normal costs plus amortization of prior service costs over a forty-year period that began on July 1, 1976.

The University also provides health and life insurance benefits for eligible retired employees and their dependants. Although there is no legal obligation for future benefits, the cost of postretirement benefits must be accrued during the service lives of employees. The University elected the prospective transition approach and is amortizing the transition obligation over 20 years, through fiscal year 2012-13.

**C. Obligations and Funded Status**

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

**SUMMARY OF OBLIGATIONS AND FUNDED STATUS**

	Pension benefits		Other postretirement	
	2010	2009	2010	2009
<b>CHANGE IN PLAN ASSETS</b>				
Fair value of plan assets at beginning of year	\$ 35,086	\$ 40,719	\$ 110,544	\$ 127,045
Actual return on plan assets	4,748	(6,189)	15,838	(22,090)
Employer contribution	5,320	3,462	8,027	5,589
Benefits paid	(2,877)	(2,516)	(2,172)	-
Settlements	-	(391)	-	-
Fair value of plan assets at end of year	\$ 42,277	\$ 35,085	\$ 132,237	\$ 110,544
<b>CHANGE IN BENEFIT OBLIGATION</b>				
Benefit obligation at beginning of year	\$ 61,536	\$ 57,377	\$ 335,827	\$ 350,135
Service cost (benefits earned during the period)	4,660	3,671	13,469	14,971
Interest cost	4,038	3,311	19,777	20,064
Plan amendments	-	-	-	(823)
Actuarial (gain)/loss	8,743	84	1,593	(36,871)
Settlements	-	(391)	-	-
Gross benefits paid	(2,877)	(2,516)	(14,542)	(11,649)
Less: federal subsidy on benefits paid	-	-	1,328	-
Projected benefit obligation at end of year	\$ 76,100	\$ 61,536	\$ 357,452	\$ 335,827
<b>FUNDED STATUS</b>	\$ (33,823)	\$ (26,451)	\$ (225,215)	\$ (225,283)
<b>AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>				
	\$ (33,823)	\$ (26,451)	\$ (225,215)	\$ (225,283)
<b>AMOUNTS RECORDED IN UNRESTRICTED NET ASSETS NOT YET AMORTIZED AS COMPONENTS OF NET PERIODIC BENEFIT COST</b>				
Net transition obligation	\$ -	\$ -	\$ 10,933	\$ 14,577
Prior service cost	-	-	(366)	(441)
Net actuarial (gain)/loss	22,394	17,506	55,571	61,146
Amount recognized as reduction in unrestricted net assets	\$ 22,394	\$ 17,506	\$ 66,138	\$ 75,282

The accumulated benefit obligation for the pension plans was \$55,988 and \$46,134 at June 30, 2010 and 2009, 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	
	2010	2009	2010	2009
Service cost (benefits earned during the period)	\$ 4,660	\$ 3,671	\$ 13,469	\$ 14,971
Interest cost	4,038	3,311	19,777	20,135
Expected return on plan assets	(2,467)	(2,971)	(9,028)	(9,854)
Amortization of initial transition obligation	-	-	3,644	3,644
Amortization of prior service cost	-	-	(76)	129
Amortization of net (gain)/loss	1,573	219	359	57
Settlement (gain)/loss	-	-	-	-
Net periodic benefit cost	\$ 7,804	\$ 4,230	\$ 28,145	\$ 29,082

The amounts of transition obligation, prior service costs, and actuarial gains/losses that will be amortized into net periodic benefit cost for the year ending June 30, 2011 are estimated as follows:

ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST		
	Pension benefits	Other postretirement
Transition obligation	\$ -	\$ 3,644
Prior service cost	-	(76)
Net actuarial (gain)/loss	1,401	1,482
Total	\$ 1,401	\$ 5,050

### 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	
	2010	2009	2010	2009
USED TO CALCULATE BENEFIT OBLIGATIONS AT JUNE 30				
Discount rate	5.90%	6.10%	5.75% / 5.60%	6.25% / 6.20%
Rate of compensation increase	6.10%	6.10%		
USED TO CALCULATE NET PERIODIC COST AT JULY 1				
Discount rate	6.10%	6.00%	6.25% / 6.20%	6.00%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	6.10%	6.10%		
ASSUMED HEALTH CARE COST TREND RATES				
Health care cost trend rate assumed for next year	n/a	n/a	7.50%	8.00%
Ultimate trend rate	n/a	n/a	5.00%	5.00%
Years to reach ultimate trend rate	n/a	n/a	5	6

The health care cost trend rate assumption has a significant effect on the amounts reported for other postretirement (health care) plans. Increasing the health care cost trend rate by 1 percent in each future year would increase the benefit obligation by \$58,981 and the annual service and interest cost by \$6,349. Decreasing the health care cost trend rate by 1 percent in each future year would decrease the benefit obligation by \$49,293 and the annual service and interest cost by \$5,030.

### F. Plan Assets

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

The University, through its Investment Office, conducts reviews of the targeted investment allocations and investment management of the assets to ensure that they are consistent with the investment objectives. Typically, those allocations include a substantial and diversified allocation to equity and equity-oriented asset classes in order to provide real growth per the objectives. The University reviews the trustee's long-term rate of return assumptions for the various asset classes for reasonableness by comparing them to assumptions generated internally for the purposes of investing the University endowment and to assumptions by other outside experts. The Investment Office reviews the trustee's success in managing assets within each targeted asset class by comparisons to standard benchmarks for those asset classes and measures the overall effectiveness of the plan investment results by comparison to benchmarks derived from the individual plan asset class allocations and to universes of plan performance maintained by its endowment custodian.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

In the next fiscal year, management will establish a formal schedule as part of its meetings with the Investment Committee of the Board of Trustees. The purpose will be to formally review, no less than annually, the asset allocation in each plan and the investment performance of each plan, and to offer suggestions to the trustee and investment manager regarding possible changes to the long-term strategic allocations which the Investment Committee believes would better meet the overall objectives of growth coupled with a prudent level of risk.

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 inheres 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 information provided by external experts, including but not limited to, investment managers at the trustee bank and the expertise within the University's Investment Office. The factors that impact the expected rates of return for various asset types includes assumptions about inflation, historically based real returns, anticipated value added by investment managers and expected average asset allocations. The expected return on plan assets by category at fiscal year ended June 30, 2010 are somewhat lower than in the prior fiscal year: 8 percent on equity securities, 5 percent on fixed income securities and 8 percent on real estate compared to 9.25 percent, 5.75 percent and 8.25 percent, respectively.

SUMMARY OF PLAN ASSETS

PERCENTAGE OF PLAN ASSETS	Target allocation	Pension benefits		Other postretirement	
		2010	2009	2010	2009
Equity securities	39-85%	62.0%	62.0%	68.0%	66.0%
Fixed income securities	15-55%	37.0%	36.0%	32.0%	33.0%
Real estate	0-5%	1.0%	2.0%	0.0%	1.0%
Total		100.0%	100.0%	100.0%	100.0%

The fair value of the pension plan assets and postretirement medical benefit plan assets as of June 30, 2010 and the roll-forward for Level 3 assets are disclosed in the tables below.

The relevant levels are based on the methodology for determining fair value: Level 1: valuation based on active markets for identical assets; Level 2: valuation based on significant observable inputs and Level 3: valuation based on unobservable inputs. 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 leveling is based upon each fund as the unit of measure.

PENSION PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2010 Total
Cash and cash equivalents				
Cash	\$ 41	\$ -	\$ -	\$ 41
Money market	129	-	-	129
Short-term investment fund	-	-	-	-
Equity securities				
U.S. small cap	-	1,821	-	1,821
U.S. large cap	-	20,014	-	20,014
Emerging markets	-	-	-	-
International equity	-	4,350	-	4,350
Fixed income securities				
Corporate bonds	-	13,087	31	13,118
Mortgage-backed securities	-	1,388	864	2,252
Other types of investments				
Real estate	-	-	552	552
Total assets	\$ 170	\$ 40,660	\$ 1,447	\$ 42,277



## SUMMARY OF LEVEL 3 PENSION PLAN ACTIVITY

	Fair value, July 1, 2009	Realized gains/(losses)	Unrealized gains/(losses)	Net purchases, sales, settlements	Transfers in/(out) of Level 3	Fair value, June 30, 2010
Mortgage-backed securities	\$ 779	\$ (1)	\$ 131	\$ (45)	\$ -	\$ 864
Corporate bonds	38	4	2	(13)	-	31
Real estate	816	(21)	(63)	(180)	-	552
Total Level 3 assets	\$ 1,633	\$ (18)	\$ 70	\$ (238)	\$ -	\$ 1,447

## POSTRETIREMENT PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2010 Total
Cash and cash equivalents				
Cash	\$ -	\$ -	\$ -	\$ -
Money market	8,918	666	-	9,584
Short-term investment fund	-	-	-	-
Equity securities				
U.S. small cap	-	12,573	-	12,573
U.S. large cap	-	35,668	-	35,668
Emerging markets	-	18,344	-	18,344
International equity	-	21,448	-	21,448
U.S. REITS	-	1,807	-	1,807
Fixed income securities				
U.S. high yield bonds	-	4,946	-	4,946
Corporate bonds	-	12,555	-	12,555
Emerging markets debt	-	2,187	-	2,187
Mortgage-backed securities	-	13,125	-	13,125
Total assets	\$ 8,918	\$ 123,319	\$ -	\$ 132,237

## 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			
2011	\$ 4,495	\$ 9,483	n/a
FUTURE BENEFIT PAYMENTS			
2011	\$ 3,607	\$ 15,742	\$ 1,832
2012	3,765	16,997	2,030
2013	3,877	18,283	2,231
2014	4,669	19,496	2,439
2015	4,710	20,976	2,643
2016-2020	30,052	127,890	17,161

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

**H. Contract College Employees**

Employees of the Contract Colleges are covered under the New York State pension plans. Contributions to the state retirement system and other employee benefit costs are paid directly by the state. The amounts of the direct payments applicable to the University as revenue and expenditures are not currently determinable and are not included in the consolidated financial statements. The University reimburses the state for employee benefit costs on certain salaries, principally those associated with externally sponsored programs. The amounts reimbursed to the state during the fiscal years ended June 30, 2010 and 2009 were \$20,140 and \$19,335, respectively, and were included in operating expenses.

**7. FUNDS HELD IN TRUST FOR OTHERS**

The University, in limited instances, invests funds as a custodian for other closely related parties. Independent trustees are responsible for the funds and for the designation of income distribution. The New York Hospital-Cornell Medical Center Fund, Inc., which benefits the Weill Cornell Medical Center of the New York-Presbyterian Hospital, is the major external organization invested in the University's long-term investment portfolio with assets having market values of \$138,929 and \$131,219 at June 30, 2010 and 2009, respectively. Of these investments, a portion of the future income stream has been directed in perpetuity to benefit the Medical College. The present values of this income stream, calculated to be \$85,280 and \$74,134 at June 30, 2010 and 2009, respectively, are recorded as reductions in the funds held in trust for others liability.

**8. BONDS AND NOTES PAYABLE****A. General Information**

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

**SUMMARY OF BONDS AND NOTES PAYABLE**

	<u>2010</u>	<u>2009</u>	<u>Interest rates</u>	<u>Final maturity</u>
Dormitory Authority of the State of New York (DASNY)				
Revenue Bond Series				
1990B-fixed rate	\$ 50,450	\$ 56,000	0.10 to 5.00	2025
2000A-variable rate/weekly	53,005	54,845	2.99*	2029
2000B-variable rate/weekly	70,680	72,800	4.63*	2030
2004-variable rate/weekly	83,900	86,075	3.51*	2033
2006-fixed rate	207,660	219,340	4.00 to 5.00	2035
2008B&C-fixed rate	127,785	130,000	3.00 to 5.00	2037
2009-fixed rate	305,000	305,000	3.00 to 5.00	2039
2010-fixed rate	285,000	-	4.00 to 5.00	2040
Tax-exempt commercial paper	6,155	6,155	0.27 to 0.45	2037
Industrial Development Agency				
2000-fixed rate	1,165	2,275	5.20 to 5.25	2011
2002A-variable rate/weekly	42,145	42,340	4.52*	2030
2002B-variable rate/weekly	15,390	15,390	4.33**	2015
2008A-fixed rate	70,000	70,000	2.00 to 5.00	2037
Bond Series 1987B-fixed rate	5,200	7,110	11.11	2012
Student Loan Marketing Association-fixed rate	4,355	4,700	6.50	2019
Urban Development Corporation	2,375	2,500	-	2029
2009 Taxable-fixed rate	500,000	500,000	4.35 to 5.45	2019
Taxable commercial paper	97,500	127,875	0.20 to 0.70	-
Other	2,817	2,973	6.63 to 7.00	2011-2029
Total bonds and notes payable	<u>\$ 1,930,582</u>	<u>\$ 1,705,378</u>		

\* Rates presented are the swap interest rates as noted in the Fair Value of Interest Rate Swaps in Statement of Financial Position table.

\*\* Swap interest rate expires July 1, 2010

The University's bonds and notes payable had carrying amounts of \$1,930,582 and \$1,705,378 at June 30, 2010 and 2009, respectively, compared to estimated fair values of approximately \$2,071,298 and \$1,741,026 at June 30, 2010 and 2009, respectively. Estimated fair value of bonds is based on quoted market prices for the same or similar issues. The market prices utilized reflect the amounts a third party would pay to purchase the bonds and are not considered an additional liability to the University.

Interest expense during the fiscal year ended June 30, 2010 was \$59,791, of which \$59,198 was related to the bonds and notes payable displayed in the table above. During the fiscal year ended June 30, 2009, interest expense was \$26,041, of which 23,042 was related to the bonds and notes payable. The University capitalized interest on self-constructed assets, such as buildings, in the amount of \$7,042 and \$15,438 for the fiscal years ended June 30, 2010 and 2009, respectively.

Debt and debt service related to borrowings by New York State for the construction and renovation of facilities of the Contract Colleges are not included in the consolidated financial statements because they are not liabilities of the University.

Under the agreement with DASNY, certain revenues, principally rental income from facilities financed by bond proceeds plus a portion of tuition, are pledged by the University to meet debt service requirements.

During the fiscal year ended June 30, 2010, the University issued \$285,000 of fixed-rate debt to finance a portion of the costs of construction of a medical research building in New York City and various capital projects on the Ithaca and Medical College campuses, and refinanced \$50,000 of taxable commercial paper. In addition, the University converted its DASNY Revenue Bond Series 1990B and 2008B&C, and Tompkins County Industrial Development Agency Civic Facility Revenue Bond Series 2008A from variable-rate demand bonds to fixed-rate bonds. The University also terminated the swap associated with the Series 2008 bonds (see note 8B).

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

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

ANNUAL DEBT SERVICE REQUIREMENTS			
Year	Principal	Interest	Total
2011	\$ 28,306	\$ 99,983	\$ 128,289
2012	34,472	91,390	125,862
2013	33,463	90,310	123,773
2014	283,485	88,931	372,416
2015	43,327	76,637	119,964
Thereafter	1,507,529	1,008,517	2,516,046
Total	\$ 1,930,582	\$ 1,455,768	\$ 3,386,350

In estimating future interest payments, the University uses the interest rate associated with the swap agreement until the termination date. For unhedged tax-exempt debt, the University estimates the future interest payments based on historical averages of tax-exempt debt. For taxable commercial paper debt, estimates are based on the 10-year average London Interbank Offered Rates (LIBOR).

## B. Interest Rate Swaps

The University approved the use of interest rate swaps to mitigate interest rate risk for its variable rate debt portfolio. The swap agreements cover current variable rate debt as well as future debt exposure. 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.

Although the use of swap agreements mitigates interest rate risk, the University, through the use of these agreements, is exposed to the risk that counterparties will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the University entered into contracts with carefully selected major financial institutions based upon their credit

ratings and other factors, and maintains dollar limits for each institution. Master agreements with counterparties include master netting arrangements as further mitigation of credit exposure to counterparties. These arrangements permit the University to net amounts due to the counterparty with amounts due from the counterparty, which reduces the maximum loss from credit risk in the event of counterparty default.

The University's swap agreements contain a credit-risk contingent feature in which the counterparties can request collateralization on agreements in net liability positions. At June 30, 2010, the University had collateral on deposit with counterparties in the amount of \$29,048 compared to \$20,341 at June 30, 2009. The University could be required to post additional collateral if the University's credit rating falls below A1/A+.

The University follows accounting guidance that defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements, including derivatives. The University's interest rate swaps are valued by an external swap consultant that uses the mid-market levels, as of the close of business, to value the agreements. The valuations provided are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and the University's credit worthiness. The University's interest rate swap arrangements have inputs that can generally be corroborated by market data and are classified as Level 2 in the fair value hierarchy.

At June 30, 2010 the University has ten interest rate swap agreements to exchange variable-rate debt for fixed-rate obligations without the exchange of the underlying principal amount. Net payments or receipts under the swap agreements are recorded as adjustments to interest expense and the incremental interest expense is disclosed in the table below. Under two agreements in effect at June 30, 2010, the counterparty pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association (SIFMA) index, and under eight other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month London Interbank Offered Rates (LIBOR).

The following table provides detailed information on the interest rate swaps at June 30, 2010, with comparative fair values for June 30, 2009. The number of swaps is reported based on notional amount.

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

Location	Notional amount	Interest rate	Commencement	Termination date	Basis	2010	2009
						Level 2 fair value	Level 2 fair value
Accounts payable and accrued expenses							
	\$ 15,390	4.33%		July 1, 2010	SIFMA	\$ (52)	\$ (612)
	104,845	2.99%		October 1, 2012	LIBOR	(8,824)	(6,943)
	42,340	4.52%		July 1, 2030	SIFMA	(10,083)	(8,379)
	72,200	4.63%		July 1, 2030	LIBOR	(17,677)	(15,075)
	86,075	3.51%		July 1, 2033	LIBOR	(11,953)	(8,373)
	200,000	3.84%		July 1, 2037	SIFMA	-	(8,918)
	100,000	3.92%	July 1, 2011	July 1, 2038	LIBOR	(15,988)	(9,564)
	200,000	3.45%	July 1, 2010	July 1, 2039	LIBOR	(28,555)	(13,212)
	275,000	3.88%	July 1, 2011	July 1, 2040	LIBOR	(54,653)	(32,414)
	200,000	3.48%	July 1, 2012	July 1, 2041	LIBOR	(18,641)	(8,332)
	200,000	3.77%	July 1, 2014	July 1, 2044	LIBOR	(17,857)	(12,844)
Total fair value						\$ (184,283)	\$ (124,666)

During the year ended June 30, 2010 the University refinanced outstanding variable rate debt with fixed rate debt (1990B, 2008A, 2008B, and 2008C) and terminated the interest rate swap agreement related to this variable rate debt. The termination resulted in a realized loss. The following table provides the amounts of the income, expenses, gains and losses recorded for the years ended June 30.

EFFECT OF INTEREST RATE SWAPS ON STATEMENT OF ACTIVITIES

Location	2010		2009	
	Income/(expense)	Gain/(loss)	Income/(expense)	Gain/(loss)
Operating expense				
Interest expense	\$ (15,872)	\$ -	\$ (12,693)	\$ -
Nonoperating activity - other				
Realized gain/(loss)	\$ -	\$ (14,330)	\$ -	\$ -
Unrealized gain/(loss)	-	(59,618)	-	(90,162)
	<u>\$ (15,872)</u>	<u>\$ (73,948)</u>	<u>\$ (12,693)</u>	<u>\$ (90,162)</u>

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

**C. Standby Purchase Agreements**

The University has standby purchase agreements with various financial institutions to purchase all of the University's variable-rate demand bonds in the event that they cannot be remarketed. In the event that the bonds covered by these standby purchase agreements are not remarketable and the agreements are not otherwise renewed, the University would be required to refund the bonds or refinance in a different interest rate mode. If all solutions failed and the University had to refund the bonds, the Annual Debt Service Requirements table would be \$128,289 for fiscal year 2011, \$212,562 for fiscal year 2012, \$294,898 for fiscal year 2013, \$372,416 for fiscal year 2014, \$119,964 for fiscal year 2015 and \$2,258,221 thereafter. Detailed information about the standby purchase agreements is shown in the following table:

SUMMARY OF STANDBY PURCHASE AGREEMENTS

Series	Provider	Expiration
2000A	JP Morgan Chase	November 2012
2000B	JP Morgan Chase	November 2012
2002A	JP Morgan Chase	November 2012
2002B	JP Morgan Chase	November 2012
2004	HSBC	April 2012

**D. Lines of Credit**

The University records its working capital lines of credit as other liabilities in the consolidated statement of financial position. At June 30, 2010, the interest rates for its two lines of credit were 1.80 percent and 1.00 percent. The two \$100 million lines of credit have annual expiration dates of December 31 and April 1. As of June 30, 2010 and 2009, \$0 and \$104,000 respectively, were borrowed against the lines of credit.

**9. OPERATING LEASES**

Although the University generally purchases, rather than leases, machinery and equipment, the University does enter operating lease agreements for the use of real property. Total lease expenses were \$24,441 and \$22,330 for the fiscal years ended June 30, 2010 and 2009, respectively. The future annual minimum lease payments in the following table are payments under operating leases expiring at various dates through September 1, 2043.

ANNUAL MINIMUM OPERATING LEASE PAYMENTS

Year	Payments
2011	\$ 26,111
2012	18,120
2013	14,513
2014	7,834
2015	6,383
Thereafter	66,724
Total minimum operating lease payments	<u>\$ 139,685</u>

**10. FUNCTIONAL EXPENSES AND STUDENT AID**

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

FUNCTIONAL EXPENSES		
	2010	2009
Instruction	\$ 594,366	\$ 628,635
Research	558,142	524,926
Public service	110,459	118,945
Academic support	252,431	267,973
Student services	118,733	123,477
Medical services	625,039	549,342
Institutional support	347,826	408,757
Enterprises and subsidiaries	197,273	202,446
Total expenses	\$ 2,804,269	\$ 2,824,501

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 \$159,265 and \$166,942 for the fiscal years ended June 30, 2010 and 2009, 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 \$35,907 and \$26,964 for the fiscal years ended June 30, 2010 and 2009, respectively.

**11. NET ASSETS****A. General Information**

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

**SUMMARY OF NET ASSETS**

	Unrestricted	Temporarily restricted	Permanently restricted	2010 Total	2009 Total
Endowment					
True endowment	\$ 999,890	\$ -	\$ 1,796,060	\$ 2,795,950	\$ 2,560,985
Funds functioning as endowment (FFE)	1,152,284	311,716	-	1,464,000	1,275,304
Total true endowment and FFE	\$ 2,152,174	\$ 311,716	\$ 1,796,060	\$ 4,259,950	\$ 3,836,289
Funds held by others, perpetual	-	-	118,637	118,637	107,874
Total University endowment	\$ 2,152,174	\$ 311,716	\$ 1,914,697	\$ 4,378,587	\$ 3,944,163
Other net assets					
Operations	(305,050)	176,366	-	(128,684)	(322,338)
Student loans	10,171	-	37,235	47,406	43,994
Facilities and equipment	1,651,239	40,181	-	1,691,420	1,848,369
Split interest agreements	-	53,365	33,026	86,391	75,173
Funds held by others, other than perpetual	-	37,377	26,536	63,913	57,774
Contributions receivable, net	-	352,498	205,427	557,925	425,375
Total net assets	\$ 3,508,534	\$ 971,503	\$ 2,216,921	\$ 6,696,958	\$ 6,072,510

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



**B. Endowment**

Of the endowment assets held at the University, 95 percent and 94 percent were invested in the LTIP at June 30, 2010 and 2009, respectively. At June 30, 2010, 2,279 of 5,946 true endowment funds invested in the LTIP had a total historic dollar value of \$895,735 and a fair value of \$805,376, resulting in these endowments being underwater by a total of \$90,359. The University holds significant unrestricted appreciation on endowments to offset these temporary decreases in value. The University has maintained these true endowment funds at their historical book value.

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

**SUMMARY OF ENDOWMENT ACTIVITY**

	Unrestricted	Temporarily restricted	Permanently restricted	2010 Total	2009 Total
True endowment and FFE, beginning of year	\$ 1,851,502	\$ 303,867	\$ 1,680,920	\$ 3,836,289	\$ 5,248,009
Investment return					
Net investment income	4,992	14,031	2,654	21,677	15,410
Net realized and unrealized gain/(loss)	296,898	69,064	6,268	372,230	(1,385,303)
Total investment return	\$ 301,890	\$ 83,095	\$ 8,922	\$ 393,907	\$ (1,369,893)
New gifts	2,425	18,561	86,318	107,304	249,810
Net transfers to/(from) FFE	110,412	(2,762)	-	107,650	(58,484)
Distribution of endowment return to other funds	(111,934)	(80,747)	(2,844)	(195,525)	(226,857)
Other changes	5,718	-	2,856	8,574	(6,403)
Reclassifications	(7,839)	(10,298)	19,888	1,751	107
Total true endowment and FFE, end of year	\$ 2,152,174	\$ 311,716	\$ 1,796,060	\$ 4,259,950	\$ 3,836,289

**12. CONTINGENT LIABILITIES**

The University is a defendant in various legal actions, some of which are for substantial monetary amounts, that arise out of the normal course of its operations. Although the final outcome of the actions cannot be foreseen, the University's administration is of the opinion that eventual liability, if any, will not have a material effect on the University's financial position.

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

**13. SUBSEQUENT EVENTS**

On September 17, 2010, the Governor of New York signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which applies to donor restricted endowment funds (i.e., true endowments). This law will impact the University for fiscal year ended June 30, 2011, primarily in the area of classification of net assets. The appreciation on true endowments, now classified as unrestricted net assets, will be reclassified as temporarily restricted net assets. Management is in the process of evaluating the impact of UPMIFA.

Based on the University's evaluation of subsequent events through October 29, 2010, the date on which the consolidated financial statements were issued, this is the only subsequent event.

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