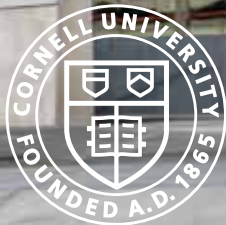


2018-2019

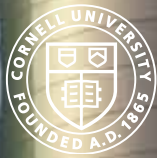
FINANCIAL REPORT







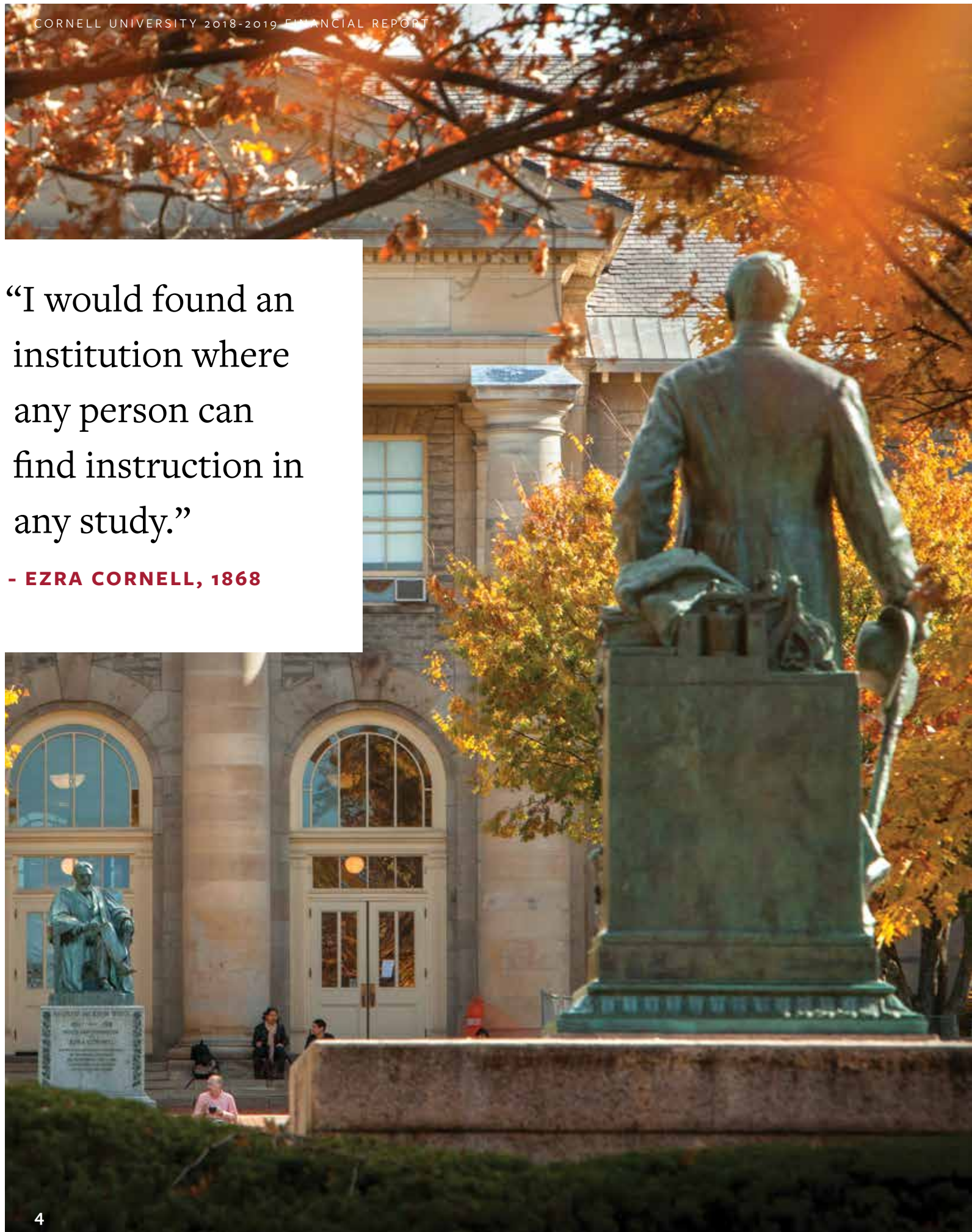
CONTENTS



- 5** Highlights
- 6** Message from the Executive Vice President and Chief Financial Officer
- 8** Financial Review by the Associate Vice President and University Controller
- 16** Report of Independent Auditors
- 17** Consolidated Financial Statements
- 20** Notes to the Consolidated Financial Statements
- 55** University Administration
- 56** Board of Trustees and Trustees At Large

“I would found an institution where any person can find instruction in any study.”

- EZRA CORNELL, 1868



CORNELL UNIVERSITY HIGHLIGHTS			
	2018-19	2017-18	2016-17
Fall enrollment (excluding in absentia)			
Undergraduate	15,182	14,907	14,566
Graduate	6,651	6,306	5,965
Professional	3,015	2,910	2,857
Total fall enrollment	24,848	24,123	23,388
Degrees granted			
Baccalaureate degrees	3,814	3,721	3,646
Masters degrees	2,932	2,799	2,792
Ph.D. degrees	609	596	555
Other doctoral degrees (J.D., M.D., D.V.M.)	386	384	403
Total degrees granted	7,741	7,500	7,396
Tuition rates			
Endowed Ithaca	\$ 54,584	\$ 52,612	\$ 50,712
Contract Colleges			
Resident	\$ 36,564	\$ 35,242	\$ 33,968
Nonresident	\$ 54,584	\$ 52,612	\$ 50,712
Medical College	\$ 57,050	\$ 55,130	\$ 52,500
Business	\$ 66,290	\$ 63,894	\$ 61,584
Law	\$ 65,456	\$ 63,242	\$ 61,400
Veterinary Medicine	\$ 35,966	\$ 34,750	\$ 33,732
Volumes in library (in thousands)	8,365	8,275	8,184
Academic workforce			
Full-time employees			
Faculty	4,064	4,012	3,964
Nonfaculty	904	890	881
Part-time employees			
Faculty	326	297	299
Nonfaculty	176	130	143*
Total academic workforce	5,470	5,329	5,287
Nonacademic workforce			
Full-time employees	11,907	11,589	11,225
Part-time employees	599	580	611
Total nonacademic workforce	12,506	12,169	11,836
University endowment			
Market value of total university endowment (in millions)	\$ 6,989.5	\$ 6,871.5	\$ 6,516.4
Unit value of Long Term Investment Pool	\$ 58.37	\$ 58.27	\$ 55.51
Gifts received, excluding pledges (in millions)	\$ 390.9	\$ 411.8	\$ 535.9
New York State appropriations through SUNY (in millions)	\$ 131.5	\$ 130.7	\$ 132.0
Medical Physician Organization fees (in millions)	\$ 1,116.4	\$ 1,068.2*	\$ 1,050.4
Sponsored research volume (in millions)			
Direct expenditures	\$ 561.0	\$ 543.8	\$ 502.0*
Indirect-cost recovery	\$ 173.5	\$ 158.8	\$ 146.2*
Selected land, buildings, and equipment items & related debt (in millions)			
Additions to land, buildings, and equipment	\$ 376.1	\$ 359.0	\$ 545.0
Cost of land, buildings, and equipment	\$ 8,271.5	\$ 7,940.0	\$ 7,613.6
Outstanding bonds, mortgages, notes payable and capital leases	\$ 1,562.3	\$ 1,395.5	\$ 1,356.7

* Restated from previously reported number.

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



I am pleased to present the Cornell University Annual Financial Report for fiscal year 2019. This report describes a healthy university, despite its operating loss. Not easily observed in these numbers, however,

are all the other things that make Cornell a great research university: world-class faculty, immensely talented students, a dedicated and skilled staff, and a supportive body of alumni.

Cornell attracts many of the world’s best prospective university students, as more than 49,000 applied to compete for first-year admission to 3,200 spaces in the Class of 2023. Only about 1 in 10 applicants can get a favorable decision, and this year’s yield (share of offer accepted) exceeded 60%, a new record. New Cornell students come from all backgrounds and locations, including 11% from 39 countries, 34% from New York State reflecting Cornell’s land-grant mission, and 55% from 48 other states and US territories. Five out of nine new Cornellians are women; five out of eight attended public high schools; and one out of seven is a first-generation college student.

University operating revenues have grown by almost 23 percent over the past five years, from \$3.5 billion to \$4.3 billion. The largest growth area has been the Medical Physician Organization at Weill Cornell Medicine, which comprises 26 percent of the university’s total operating revenue (compared to 23 percent in fiscal year 2014).

Cornell remains a leader in research, a critical factor in attracting outstanding faculty members and enhancing the educational experience for both undergraduate and graduate students. In fiscal year 2019, the university generated over \$856 million in grant and contract revenues, comprising 20 percent of the university’s total operating revenues.

Operating costs at Cornell are less dependent on endowment payout than they are at other highly endowed institutions, mostly due to Cornell’s revenue diversity; only approximately 7 percent of the university’s operating costs was funded

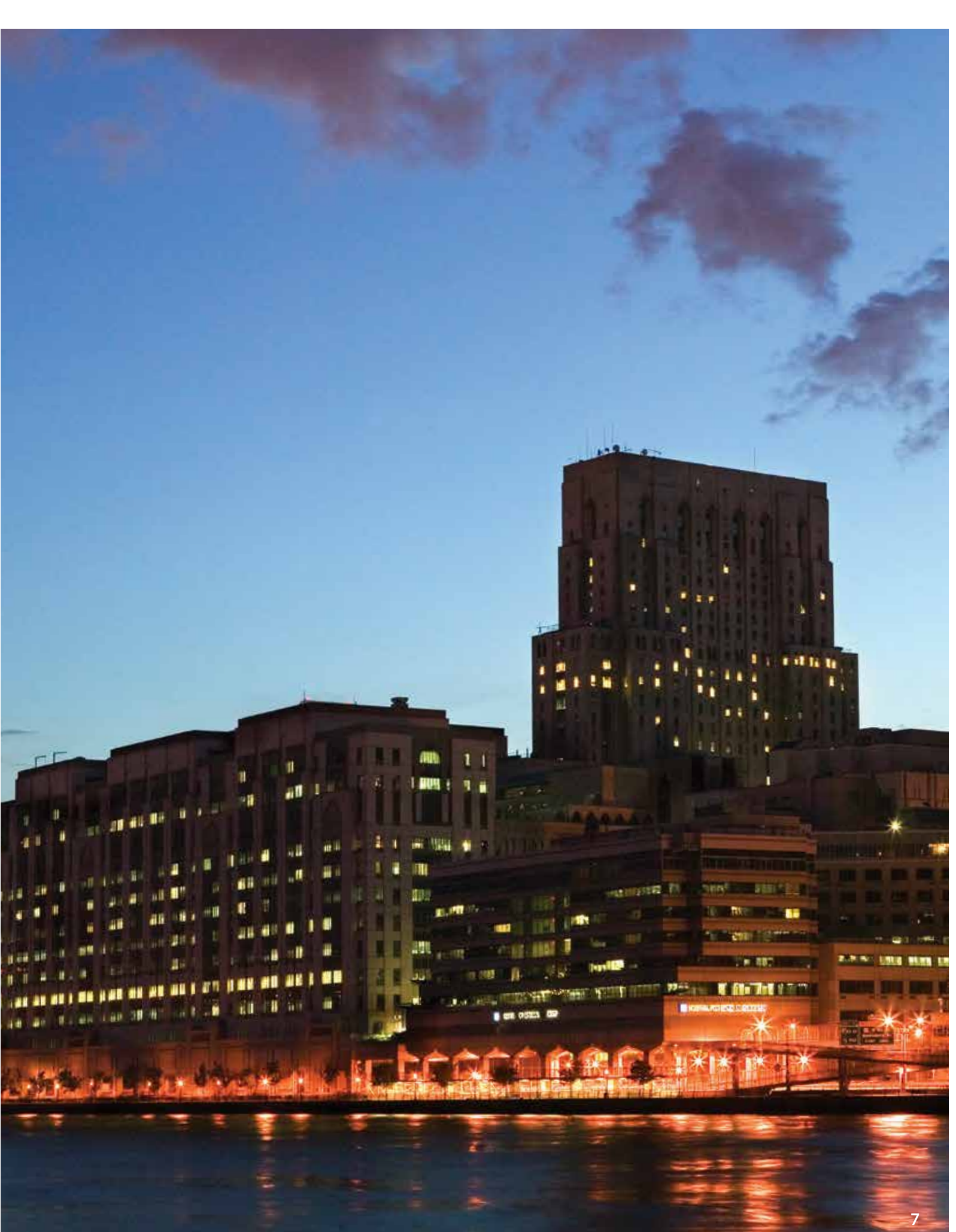
from its endowment payout in fiscal year 2019. University operating expenses increased by \$223 million, or 5 percent, from \$4.2 billion to over \$4.4 billion this past year, mainly as a result of the continued growth in the Medical Physician Organization. This year, the university experienced an overall operating loss of \$104 million.

As of June 30, 2019, Cornell had \$1.5 billion of bonds and notes outstanding, including \$154 million of outstanding commercial paper. The university has a notional amount of \$762 million in interest-rate swaps, whose fair value is determined by an external swap consultant. Change in valuation between June 30, 2018 and June 30, 2019 increased the mark-to-market liability by \$62 million, due to the change in interest rates over this period.

In summary, the results of fiscal year 2019 are in line with the university’s operating plan, benefiting primarily from the continued growth in the clinical practice and the planned growth of Cornell Tech. The growth in net assets indicates that the university remains financially strong, with adequate long-term and short-term resources to support both current and new strategic initiatives.

Joanne M. DeStefano

Executive Vice President and Chief Financial Officer

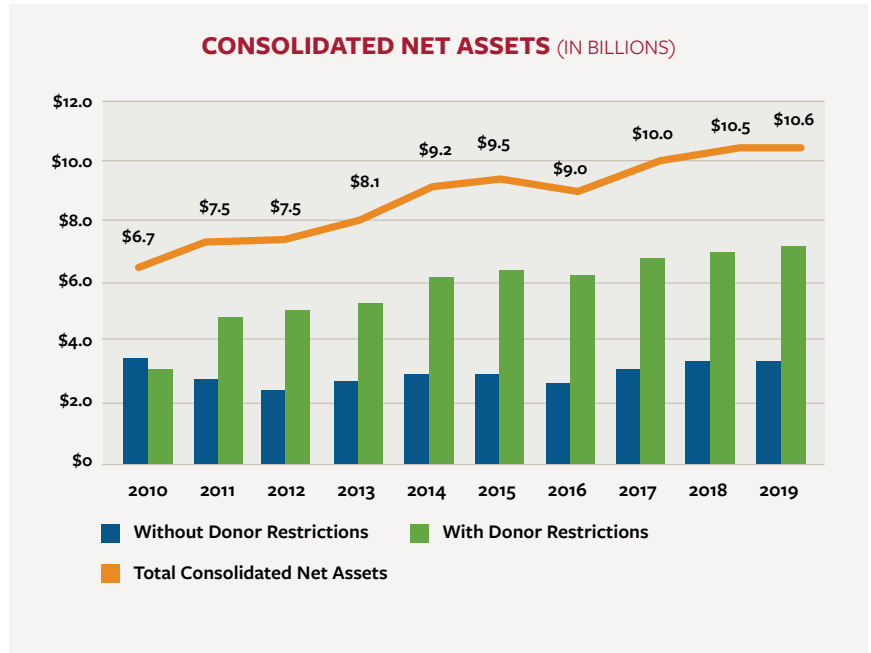


OVERVIEW

The following is a discussion of the financial results for the current fiscal year. It includes highly summarized data and should be read in conjunction with the accompanying consolidated financial statements and notes.

NET ASSETS

The University ended the fiscal year with approximately \$10.6 billion in net assets, which is an increase of \$129.3 million or 1.2 percent over the prior year. This increase in net assets was primarily due to positive investment return net of amount distributed and contributions for capital acquisitions, trusts and endowments. Total net assets without donor restrictions are \$3.42 billion, down from \$3.44 billion or a 0.4 percent decrease over the prior year. The University’s endowment grew by \$103.2 million. The endowment balance at the end of the fiscal year was \$7.0 billion, compared to \$6.9 billion in fiscal year 2018. Over the past ten years, consolidated net assets have grown at a compound annual growth rate of 4.7% despite a decrease in 2016.



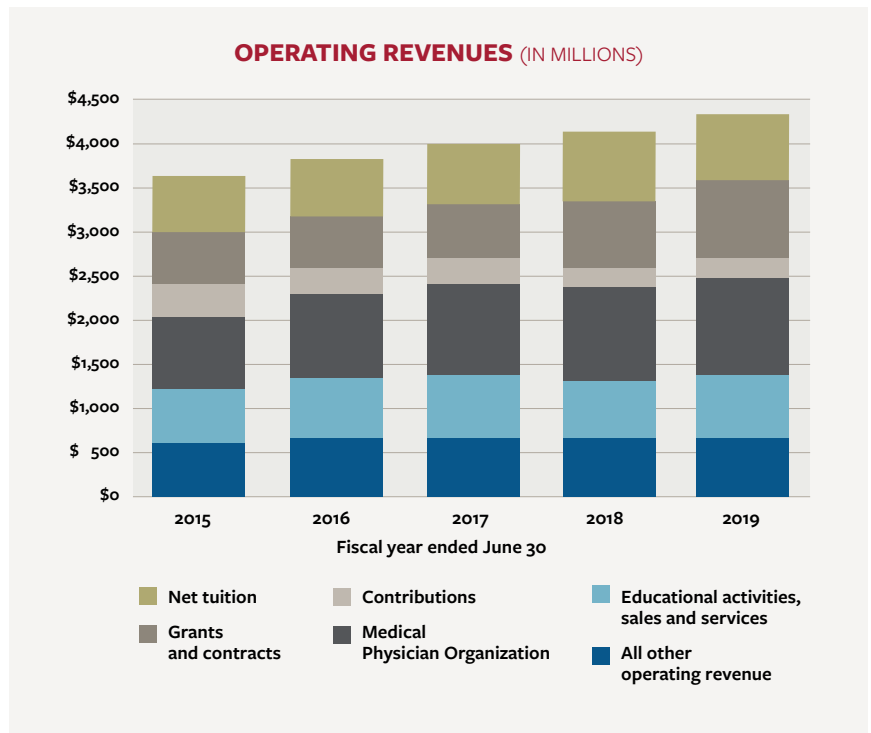
OPERATING RESULTS

The University’s operating activities primarily include all revenues and expenses that support education, research, and public service efforts and are discussed in more detail in their respective segments of this review. Operating results for fiscal year 2019 declined by \$25.1 million when compared to fiscal year 2018, as reflected in a 5.3 percent increase in operating expenses offset by a 4.8 percent increase in operating revenues.

Operating Revenues

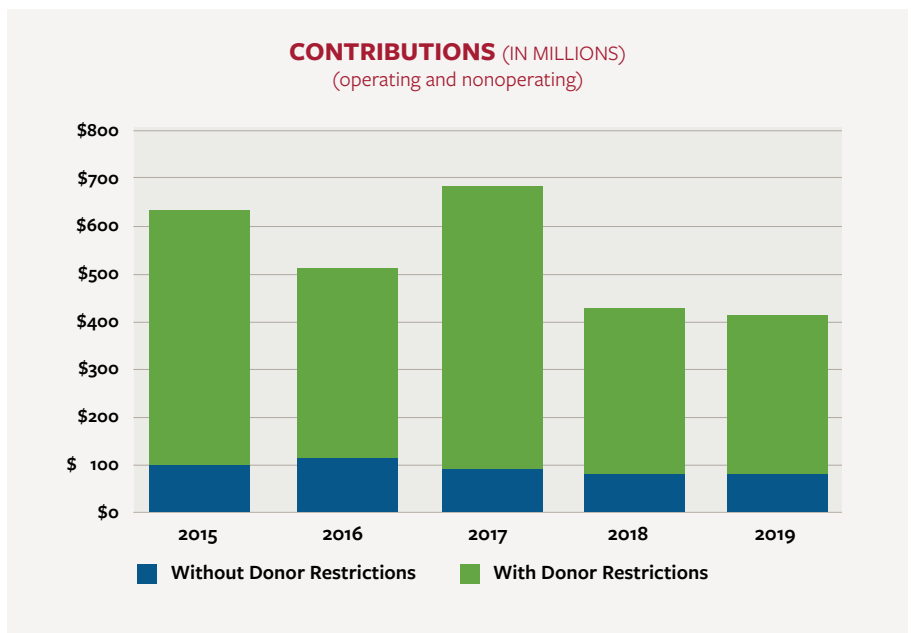
Total operating revenues increased by \$197.5 million to \$4.3 billion in fiscal year 2019. The University’s revenue sources are summarized below:

- The new revenue recognition standard (discussed later in this review) requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

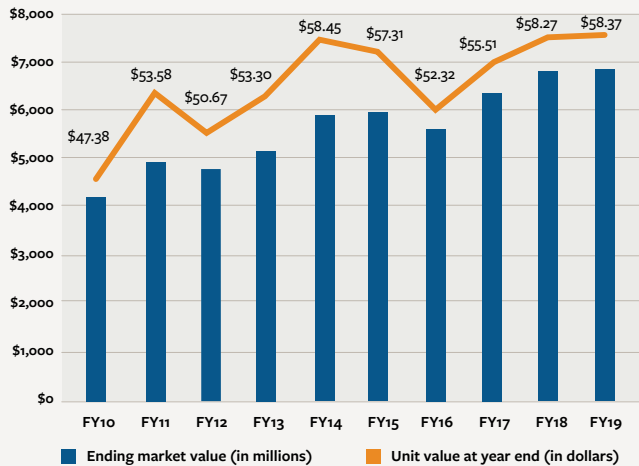


Therefore, all revenues depicted on the face of the financial statements are presented net of discounts, chargebacks, and other items that reduce the gross revenue to the amount the entity expects to receive.

- In fiscal year 2019, gross tuition and fees increased by 6.5 percent because of Board-authorized tuition increases and a 3.0 percent increase in the number of students, for an overall enrollment of 24,848. Net tuition and fees revenue was \$770.9 million, or 17.7 percent of total operating revenues, an increase of \$44.3 million, or 6.1 percent.
- The scholarship allowance of \$412.9 million is the financial support awarded by the University to individual undergraduate and graduate students to offset some portion of the amount of tuition billed. Undergraduate tuition financial aid is awarded only on the basis of financial need. For graduate students, the amount of financial aid awarded may be based on financial need and/or student merit. The financial aid category also includes the amount of stipends awarded to students, typically as components of fellowship awards or appointments as graduate teaching or research assistants.
- State and federal appropriations of \$151.4 million remained consistent year over year, at 3.5 percent of total operating revenues. The University receives appropriations from both the New York State and federal governments. Typically, appropriations are awarded based on legislation, and not through an application process.
- Grants, contracts, and similar agreements (sometimes referred to as “Sponsored Programs”) is revenue generated from external entities, such as governmental agencies, corporations, or non-profit organizations. Sponsored agreements are allocated and charged a portion of the University’s facilities and administrative (F&A) costs using the indirect cost, or F&A, rate. The rates are federally negotiated, University-approved, and in some cases limited by the sponsor. Combined direct and indirect revenues from grants, contracts and similar agreements totaled \$856.1 million, or 19.7 percent of total operating revenues.
- Contributions, including unconditional promises to give (“pledges”), are recognized as revenues in the appropriate categories of net assets in the periods received. Contribution revenue for operations was \$239.0 million, or 5.5 percent of total operating revenues, down from fiscal year 2018 (\$243.0 million, or a 1.6 percent decrease).
- Investment return distributed was \$332.4 million, or 7.7 percent of total operating revenues, a 1.3 percent decrease year over year. Investment payout on the long-term investment pool (LTIP) shares is the major component of this revenue. The LTIP is a mutual-fund-like vehicle used for investing the University’s true endowment funds, funds functioning as endowment, and other funds that are not expected to be expended for at least five years. Investment return included in operating revenues consists of amounts appropriated by the Board of Trustees from the pooled endowment, and income and realized gains and losses on investments from working capital and non-pooled endowments and similar funds. During the current fiscal year, the Board of Trustees approved a change in how the annual distribution from the endowment will be calculated. Beginning fiscal year 2020, the amount of the investment return distributed, which is set annually by the Board of Trustees, will be within a range of 4.4 percent of a twenty-eight-quarter rolling average, plus or minus 0.75 percent, not to exceed 5.0 percent of the twenty-eight-quarter value.



LONG TERM INVESTMENT POOL



net assets without donor restrictions resulting from the satisfaction of donor-imposed contribution stipulations with respect to timing or purpose. In fiscal year 2019, this amount was \$334.0 million.

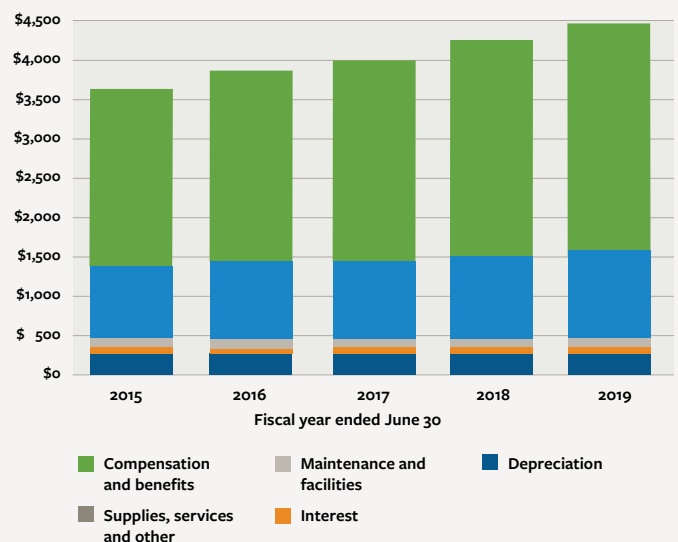
Operating Expenses

Total operating expenses increased \$222.7 million to \$4.4 billion in fiscal year 2019. The University's major operating expense categories are summarized below:

- Medical Physician Organization revenue includes revenues generated by physician members conducting instructional and research activities, and clinical practice income from their professional services to patients. The Medical Physician Organization continues to grow, with revenues up \$48.2 million or 4.5 percent, reaching over \$1.1 billion. This increase was due primarily to increases in clinical and imaging services to New York-Presbyterian Hospital. This year's income represented 25.7 percent of total operating revenues.
- Auxiliary enterprises are revenues from non-academic entities that exist predominantly to furnish goods or services to students, faculty, or staff members, and that charge a fee directly related to, although not necessarily equal to, the cost of the goods or services. The University's auxiliary enterprises, which includes housing, dining, conference services, and the Cornell Store, totaled \$166.4 million, or 3.8 percent of total operating revenues.
- Educational activities and other sales and services includes revenues associated with non-credit, educational-related programs and other sales and service activities that occur in many units throughout the University. Examples of such programs and activities include executive education programs, the Statler Hotel, the Cornell University Hospital for Animals, royalty income, athletic programs and ticket sales, rental income, and student health insurance premiums. Revenue for educational activities and other sales and services totaled \$712.1 million, an increase of \$73.8 million, or 11.6 percent over last year, and represented 16.4 percent of total operating revenues.
- Net assets released from restriction are the transfer of funds from net assets with donor restrictions to

- Expenses for salaries and wages are the major component of operating expenses for a research university, and Cornell is no exception. Consistent with the prior year, compensation and benefits totaled \$2.9 billion and comprised 64.8 percent of total operating expenses. This expense increased by \$154.4 million, or 5.7 percent. Beyond the overall salary improvement plan, (2.5 percent in Ithaca), compensation at WCM was a major component of this increase due to an overall increase in staffing, (up 248 employees to 8,920 compared to 8,672 in fiscal year 2018). This increase supported strategic initiatives and the expansion of the Medical Physician Organization.
- Supplies, services and other expenses were \$1.1 billion and comprised 23.9 percent of the total operating expenses. Included in this expense line are financial aid for room, board, and student health plan premiums.
- Other operating expenses, which includes depreciation expense, maintenance and facilities costs, and interest expense, represented 11.3 percent of total operating expenses. These expenses increased 3.1 percent over fiscal year 2018, primarily due to new building additions as discussed in Note 5. The University is committed to managing overall costs without

OPERATING EXPENSES (IN MILLIONS)





jeopardizing its ability to carry out its missions and strategic initiatives and continues to focus efforts on streamlining, efficiencies and reducing administrative burden.

Non-Operating Revenues And Expenses

Non-operating activities are those in support of the University but not directly related to its core, day-to-day activities. These include funding from New York State (NYS) for buildings; funding from donors restricted to capital projects, trusts, or endowments; investment returns, net of amounts distributed; and non-operating income and expense affected by fair-value adjustments at fiscal year-end.

- State appropriations for capital acquisitions are NYS appropriations for the State University of New York (SUNY) construction funding for capital projects on contract college buildings, which allow the University to build and improve its contract college facilities. The current year revenues decreased by \$8.6 million from the prior year.
- Grants and contracts for capital acquisitions is a one-time grant from the New York City Economic Development Corporation toward construction of the Bloomberg Building at Cornell Tech. These revenues decreased by \$7.4 million to zero in the current year because this project has been completed.
- Contributions for capital acquisitions, trusts and endowments are gifts designated for non-operating purposes such as capital projects, trusts, and endowments totaled \$176.2 million, resulting in a 1.9 percent decrease from the prior year.
- The overall non-operating gain of \$233.6 million for fiscal year 2019 is driven by the remaining income and expense items, discussed in the following paragraphs, which are significantly affected by market factors. These include:
 - Investment return, net of amount distributed, which consists of unrealized gains and losses on investments, any difference between total return and amounts appropriated from the pooled endowment, and income and realized gains reinvested per donor restrictions. The investment return net of distribution of \$93.0 million is a decrease of \$197.6 million, or 68.0 percent from the prior year, due primarily to market conditions. The amount distributed of \$332.4 million is reflected in the operating revenues.
 - Pension and postretirement changes are affected by numerous factors. The \$31.4 million gain includes gains, losses, and other changes in the actuarially determined benefit obligations arising in the current period but not yet reflected within net periodic benefit cost.
 - The year-over-year decrease in the value of interest rate swaps is based on swap interest payments and any change in the fair value of the swaps due to changes in the discount rate. The net loss of these for fiscal year 2019 was \$78.1 million.

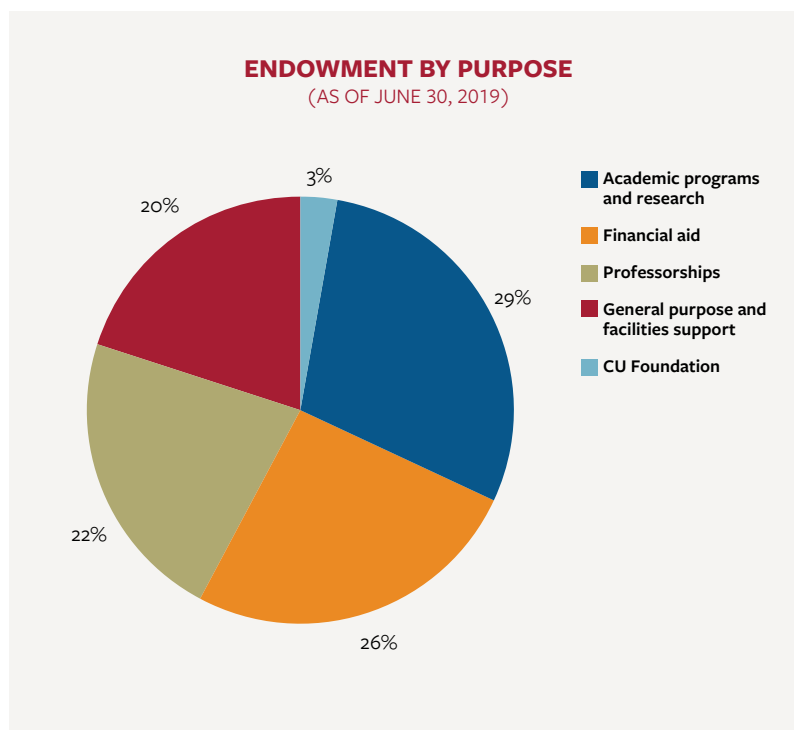
STATEMENT OF FINANCIAL POSITION

The University's overall net assets increased by \$129.3 million, or 1.2 percent. Because of this performance in the current year, the statement of financial position, or balance sheet, experienced an increase with over \$10.6 billion in net assets, including \$3.4 billion in net assets without donor restrictions. Total assets increased by \$331.4 million, or 2.4 percent, while total liabilities increased by \$202.1 million, or 6.5 percent.

Assets

- Cash and cash equivalents includes cash on hand and in bank accounts, money market funds, and other temporary investments held for working capital purposes with an original maturity term of ninety days or less. Cash is subject to variation from year to year because of the University's holdings in cash equivalents as of June 30. At the end of fiscal year 2019, cash and cash equivalents were \$6.6 million lower (\$234.5 million) than the prior year (\$241.1 million) which represents a decrease of 2.7 percent.

- Receivables from all sources including enterprise activities, patients, students, and donors, of \$1.4 billion increased by \$10.1 million, or 0.8 percent. These receivables are more fully disclosed in Note 3 of the consolidated financial statements.
- Investments, comprising of international equity, fixed income, commodities, real estate, and private equity assets, had a balance of \$7.8 billion as of June 30, 2019, a 3.4 percent increase from the prior year (\$7.5 billion). The underlying security holdings within investments are managed by numerous external investment managers, selected by and engaged on behalf of the University through the Office of University Investments (OUI), and held in discrete investment portfolios by manager.
- The University continues to enhance its physical plant with new buildings, improvements to older buildings, and infrastructure projects. Land, buildings, and equipment, now \$4.3 billion, increased by \$50.9 million, which consisted of projects placed in service as well as construction in progress (CIP). During the fiscal year, the University placed into service renovations in Ithaca to Mui Ho Fine Arts Library, Olin Hall, Geneva Food Sciences Building, and the Small Animal Community Practice Building. It placed into service additions at Cornell Tech for Site Development and Utilities. At Weill Cornell Medicine, the University placed into service additions to 156 William Ave, the Jacob S. Lasdon House and a purchase of land at 1393 York. Construction in progress at fiscal year-end includes several major projects such as Ithaca’s North Campus Residential Expansion, Olin Hall, Statler Hotel, Martha Van Rensselaer Hall, Weill Cornell Medicine’s 1300 York and the Feil Family Research Building and Cornell Tech’s Executive Education Center and Hotel.
- Funds held in trust by others increased year over year by \$19.4 million or 17.0 percent.



Liabilities

- The accounts payable and accrued expenses balance of \$643.7 million increased by \$51.5 million, or 8.7 percent, for the year. This was due primarily to a \$61.5 million increase in the swap liability, which was affected by a decrease in interest rates.
- Deferred benefits include benefits to employees that are not yet paid. The largest component is the University’s obligation to its employees after retirement, including pensions and retiree health and life insurance benefits. The deferred benefits of \$605.7 million decreased year over year by \$15.6 million, or 2.5 percent. These liabilities are further disclosed in Note 7.
- Funds held in trust for others are resources that are invested by the University as a custodian for other closely associated parties. Independent trustees are responsible for investing the funds and for designating income distribution. The decrease of \$7.4 million, or 6.8 percent, was primarily the result of a decrease in amounts owed. These funds held in trust for others are further disclosed in Note 8.
- The bonds and notes payable increase of \$181.3 million, or 13.9 percent, was due to a \$150 million taxable fixed rate debt offering to finance capital projects. The University also completed a refunding of its \$253.6 million Series 2009A bonds and returned \$52.9 million of tax-exempt commercial paper. These bonds and notes payable are further disclosed in Note 9.

NEW STANDARDS, EMERGING ISSUES, AND INITIATIVES

During the fiscal year, the University implemented three Financial Accounting Standards Board (FASB) standards. ASU 2014-09—Revenue from Contracts with Customers (Topic 606) aims to provide a comprehensive, industry-neutral revenue recognition model to increase financial statement comparability across companies and industries, and significantly reduce the complexity inherent in today’s revenue recognition guidance. All applicable requirements of this standard are represented throughout the financial statements and notes.

ASU 2016-14—Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities aims to improve the information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. All of these enhancements are represented throughout the financial statements and notes.

ASU 2018-08—Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The amendments are intended to assist in evaluating whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and in determining whether a contribution is conditional.

During fiscal year 2020, the University will implement ASU 2016-02—Leases (Topic 842), which addresses the criticism that current accounting standards do not adequately inform financial statement users of the full nature and implications of leasing transactions. The new standard will require Cornell to recognize operating leases as right-of-use assets and lease liabilities on its statement of financial position.

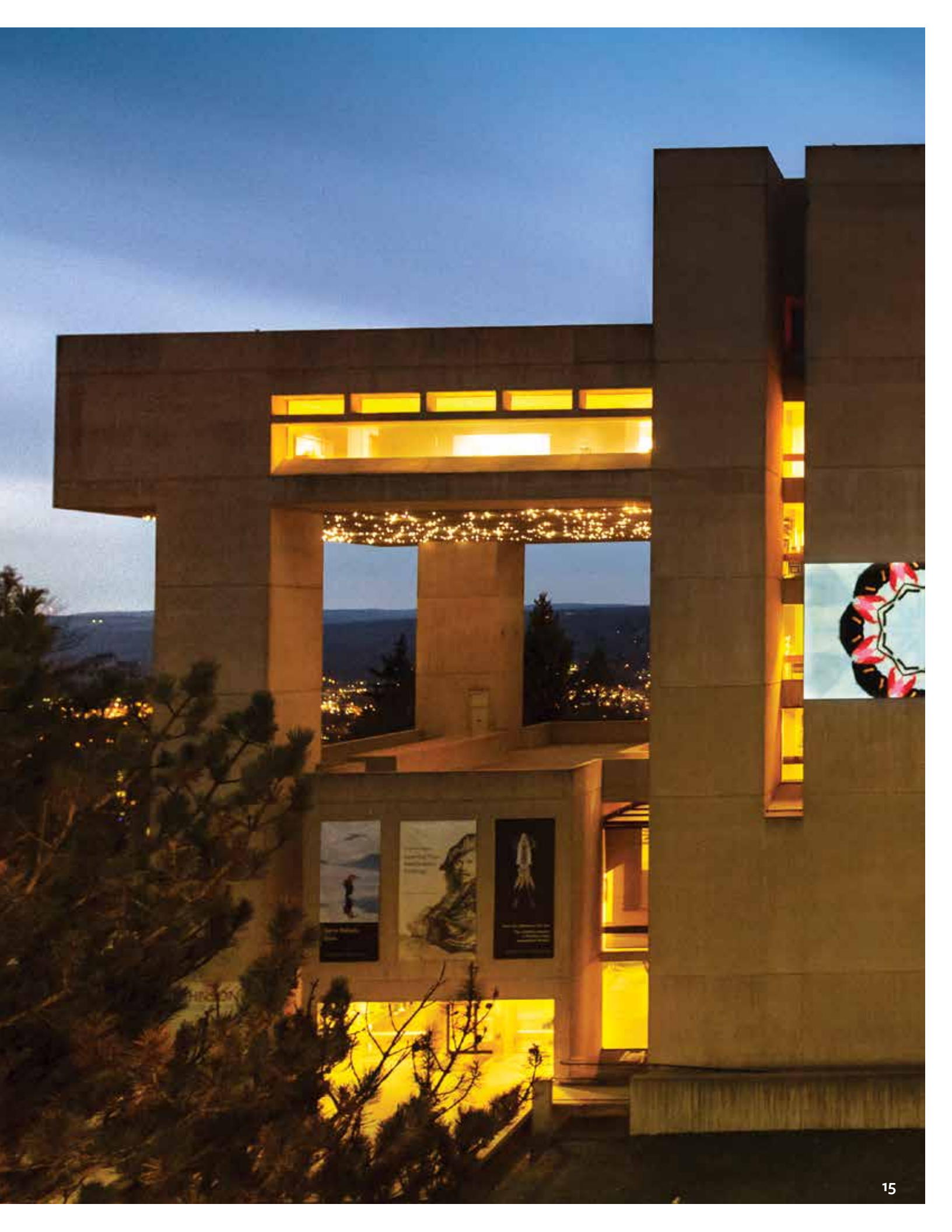
SUMMARY

Even though the University has experienced negative operating returns during the two financial statement periods presented, overall results during the period were a positive \$609.0 million. This is primarily due to positive market conditions and donor philanthropy. To improve operational results in the future, the University must take advantage of opportunities to increase revenues and/or reduce expenses while continuing to deliver its mission to discover, preserve, and disseminate knowledge, to educate the next generation of global citizens, and to promote a culture of broad inquiry throughout and beyond the Cornell community.



William Sibert

Associate Vice President and University Controller



To The Board of Trustees of Cornell University

We have audited the accompanying consolidated financial statements of Cornell University (the “University”), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities for the year ended June 30, 2019 and of cash flows for the years ended June 30, 2019 and 2018.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cornell University as of June 30, 2019 and 2018 and the changes in their net assets for the year ended June 30, 2019 and their cash flows for the years ended June 30, 2019 and 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University changed the manner in which it presents net assets and reports certain aspects of its consolidated financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated November 1, 2018, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2018 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Rochester, New York
October 17, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2019 AND JUNE 30, 2018 (in thousands)

	2019	2018
Assets		
Cash and cash equivalents	\$ 234,539	\$ 241,127
Accounts receivable, net (note 3-A)	550,060	518,762
Contributions receivable, net (note 3-B)	804,904	826,109
Prepaid expenses and other assets	141,274	137,030
Investments (note 4)	7,756,468	7,503,029
Land, buildings, and equipment, net (note 5)	4,347,909	4,297,047
Funds held in trust by others (note 6)	<u>133,180</u>	<u>113,795</u>
Total assets	<u><u>\$ 13,968,334</u></u>	<u><u>\$ 13,636,899</u></u>
Liabilities		
Accounts payable and accrued expenses	\$ 643,679	\$ 592,141
Deferred revenue and other liabilities	244,355	247,358
Obligations under split interest agreements (note 6)	134,087	135,331
Deferred benefits (note 7)	605,741	621,348
Funds held for others (note 8)	100,827	108,195
Obligations under capital leases (note 10)	119,022	122,552
Bonds and notes payable (note 9)	<u>1,486,958</u>	<u>1,305,651</u>
Total liabilities	<u><u>3,334,669</u></u>	<u><u>3,132,576</u></u>
Net assets (note 12)		
Without donor restrictions	3,422,627	3,437,286
With donor restrictions	<u>7,211,038</u>	<u>7,067,037</u>
Total net assets	<u><u>10,633,665</u></u>	<u><u>10,504,323</u></u>
Total liabilities and net assets	<u><u>\$ 13,968,334</u></u>	<u><u>\$ 13,636,899</u></u>

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

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR-ENDED JUNE 30, 2019
 WITH SUMMARIZED INFORMATION FOR THE YEAR-ENDED JUNE 30, 2018 (in thousands)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Operating revenues				
Tuition and fees (scholarship allowance \$412,929 and \$385,158)	\$ 770,907	\$ -	\$ 770,907	\$ 726,621
State and federal appropriations	151,421	-	151,421	150,632
Grants, contracts and similar agreements				
Direct	679,599	-	679,599	656,496
Indirect cost recoveries	176,501	-	176,501	159,792
Contributions	82,713	156,303	239,016	242,965
Investment return, distributed	193,055	139,352	332,407	336,914
Medical Physician Organization	1,116,384	-	1,116,384	1,068,163
Auxiliary enterprises	166,442	-	166,442	167,391
Educational activities and other sales and services	712,130	-	712,130	638,303
Net assets released from restrictions	333,961	(333,961)	-	-
Total operating revenues	4,383,113	(38,306)	4,344,807	4,147,277
Operating expenses (Note 11)				
Compensation and benefits	2,884,000	-	2,884,000	2,729,643
Supplies, services and other	1,063,625	-	1,063,625	1,010,193
Maintenance and facilities	139,262	-	139,262	127,907
Interest (note 9)	57,338	-	57,338	51,541
Depreciation	304,818	-	304,818	307,109
Total operating expenses	4,449,043	-	4,449,043	4,226,393
Change in net assets from operating activities	(65,930)	(38,306)	(104,236)	(79,116)
Nonoperating revenues and (expenses)				
State appropriations for capital acquisitions	25,338	-	25,338	33,930
Grants, contracts and similar agreements for capital acquisitions	-	-	-	7,441
Contributions for capital acquisitions, trusts and endowments	5,328	170,878	176,206	179,680
Investment return, net of amount distributed	29,722	63,302	93,024	290,615
Change in value of split interest agreements	2,101	208	2,309	559
Pension and postretirement changes	31,399	-	31,399	45,581
Swap interest and change in value of interest rate swaps	(78,091)	-	(78,091)	23,601
Other	(16,823)	216	(16,607)	(22,587)
Net assets released for capital acquisitions and reclassifications	52,297	(52,297)	-	-
Change in net assets from non-operating activities	51,271	182,307	233,578	558,820
Change in net assets	(14,659)	144,001	129,342	479,704
Net assets, beginning of the year	3,437,286	7,067,037	10,504,323	10,024,619
Net assets, end of the year	\$ 3,422,627	\$ 7,211,038	\$ 10,633,665	\$ 10,504,323

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS-ENDED JUNE 30, 2019 AND JUNE 30, 2018 (in thousands)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 129,342	\$ 479,704
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities		
Proceeds from contributions for capital acquisitions, trusts and endowments	(151,143)	(204,423)
Depreciation and amortization	295,800	298,981
Net realized and unrealized (gain)/loss on investments	(363,277)	(544,723)
Pension and postretirement changes	(31,399)	(45,581)
Change in unrealized (gain)/loss interest rate swaps	61,549	(44,840)
Bond call premium, bond premium and issuance costs	(1,114)	-
Loss on disposals of land, building, and equipment	1,449	1,226
Other adjustments	(2,580)	(2,877)
Change in assets and liabilities		
Accounts receivable, net, other than student loans	(35,676)	(52,555)
Contributions receivable, net	21,205	76,737
Prepaid expenses and other assets	(4,244)	(3,533)
Accounts payable and accrued expenses	(17,047)	22,335
Deferred revenue and other liabilities	(1,456)	11,285
Obligations under split interest agreements	(20,629)	(1,006)
Deferred benefits	15,792	10,456
Net cash provided/(used) by operating activities	<u>(103,428)</u>	<u>1,186</u>
Cash flows from investing activities		
Proceeds from the sale and maturities of investments	6,014,440	10,842,078
Purchase of investments	(5,902,760)	(10,622,635)
Acquisition of land, buildings, and equipment (net)	(344,457)	(312,591)
Student loans granted	(9,932)	(9,744)
Student loans repaid	11,649	15,475
Change in funds held for others, net of unrealized (gain)/loss on investments	(9,210)	(36,114)
Net cash used by investing activities	<u>(240,270)</u>	<u>(123,531)</u>
Cash flows from financing activities		
Proceeds from contributions for capital acquisitions, trusts and endowments		
Investment in endowments	124,483	151,571
Investment in physical plant	23,427	50,488
Investment subject to living trust agreements	3,233	2,364
Principal payments of bonds, notes payable and capital leases	(89,219)	(33,265)
Proceeds from issuance of bonds and notes payable	275,619	15,680
Bond call premium, bond premium and issuance costs	1,114	-
Government advances for student loans	(1,547)	(4,631)
Net cash provided by financing activities	<u>337,110</u>	<u>182,207</u>
Net change in cash and cash equivalents	(6,588)	59,862
Cash and cash equivalents, beginning of year	241,127	181,265
Cash and cash equivalents, end of year	<u>\$ 234,539</u>	<u>\$ 241,127</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 65,979	\$ 59,442
Increase/(decrease) in construction payables, non-cash activity	\$ 7,036	\$ (22,951)
Assets acquired under capital leases	\$ 396	\$ 56,350
Gifts-in-kind	\$ 5,241	\$ 2,586

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

1. SIGNIFICANT ACCOUNTING POLICIES**A. Description of the Organization**

Founded in 1865, Cornell University (“the University”) is dedicated to a mission of learning, discovery, and engagement. Cornell is a private university, the federal land-grant institution of New York State, and a member of the Ivy League. Cornell administers four contract colleges, which are also units of the State University of New York. Described as the first truly American university because of its founders’ revolutionary egalitarian and practical vision of higher education, the University is dedicated to its land-grant mission of outreach and public engagement. Cornell’s community includes nearly 25,000 students, 4,000 faculty, and approximately 287,000 alumni who live and work across the globe.

The University comprises colleges and schools in Ithaca, New York (seven undergraduate units and four graduate and professional units), New York City (two medical graduate and professional units, together with its physician organization referred to collectively as “Weill Cornell Medicine” or “WCM”), and Doha, Qatar (the “Weill Cornell Medicine - Qatar”). Also in New York City, the Cornell Tech campus offers graduate programs in applied sciences, including two programs offered jointly with the Technion - Israel Institute of Technology under the auspices of the Joan and Irwin Jacobs Technion-Cornell Institute.

The University is subject to the common administrative authority and control of the Cornell University Board of Trustees. The University is prohibited from using funds attributable to the contract colleges (i.e., those colleges operated by the University on behalf of New York State) for other units of the University. Except as specifically required by law, the contract and endowed colleges at Ithaca, Cornell Tech, and WCM are, to the extent practicable, governed by common management principles and policies determined at the private discretion of the University. In addition to the activities of the endowed and contract colleges, the University’s subsidiaries and certain affiliated organizations are included in the consolidated financial statements. All significant intercompany transactions and balances are eliminated in the accompanying consolidated financial statements.

B. Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). Net assets, revenues, gains, and losses are categorized based on the existence or absence of donor-imposed restrictions.

The University’s Board of Trustees, with consideration to the actions, reports, information, advice, and counsel provided by its duly constituted committees and appointed officers of the University, including University Counsel, has instructed the University to preserve the historical dollar value of donor-restricted (true) endowment funds, absent explicit donor direction to the contrary. As a result, the University classifies as net assets with donor restrictions the original gift value of true endowments, plus any subsequent gifts and accumulations made in accordance with the directions of the applicable gift instruments.

Net assets with donor restrictions also include gifts and appropriations from the endowment that can be expended, but for which the donors’ purpose restrictions have not yet been met, as well as net assets with explicit or implied time restrictions, such as pledges and split-interest agreements. Expiration of donor restrictions is reported in the consolidated statement of activities as a reclassification from net assets with donor restrictions to net assets without donor restrictions on the net assets released from restriction lines.

Net assets without donor restrictions are the remaining net assets of the University, and include donor-restricted contributions for which the purpose restrictions are met in the same fiscal year as the revenue is recognized.

The University’s measure of operations as presented in the consolidated statement of activities includes revenue from tuition and fees, state and federal appropriations, grants and contracts, contributions for operating programs, allocation of endowment spending for operations, medical services and other revenues. Operating expenses are reported in the consolidated statement of activities by natural classification.

The University's non-operating activity within the consolidated statement of activities includes appropriations and grants and contracts for capital acquisition, contributions to the endowment and for building construction and renovation, investment returns and other activities related to endowment, long-term benefit plan obligation funding changes, and certain nonrecurring items.

C. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in bank accounts, money market funds, and other temporary investments held for working capital purposes with an original maturity term of ninety days or less. The carrying amount of cash equivalents approximates fair value because of their short terms of maturity. Cash that is part of the University's investment portfolio is reported as investments and included in Note 4.

D. Investments

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

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

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

E. Fair-Value Hierarchy

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

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

The fair value of Level 2 securities is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data. Inputs are obtained from various sources, including market participants, dealers, and brokers. In determining fair value of financial instruments, the University considers factors such as interest-rate yield curves, duration of the instrument, and counter-party credit risk. The fair value of Level 2 securities is determined using multiple valuation techniques including the market approach, income approach, or cost approach.

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

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

F. 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 value of these derivative positions is reflected in the net asset value of the respective fund. The change in the fair value of a derivative instrument held for investment is included in non-operating investment return in the consolidated statement of activities.

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

Derivatives involve counterparty credit exposure. To minimize this exposure, the University manages counter-party risk by limiting swap exposure for each counter-party and monitoring the financial health of swap counterparties, and has structured swap documents to limit maximum loss in the event of counter-party default.

G. 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. Useful lives range from three to fifteen years for equipment and fifteen to fifty years for buildings and improvements. Expenditures associated with the construction of new facilities are recorded as construction in progress until the projects are completed.

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

H. Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and charitable trusts for which the University serves as trustee. Assets held in trust are either separately invested or included in the University's investment pools in accordance with the agreements. Contributions of split-interest agreements, net of related liabilities, increase net assets with donor restrictions. Liabilities associated with charitable gift annuities and charitable trusts represent the present value of the expected payments to the beneficiaries based on the terms of the agreements. Pooled income funds are recognized at the net present value of the net assets expected at a future date. Gains or losses resulting from changes in fair value,

changes in assumptions, and amortization of discount are recorded as changes in value of split-interest agreements in the appropriate restriction categories in the non-operating section of the consolidated statement of activities.

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 assets or the present value of future cash flows due to the University when the irrevocable trust is established or the University is notified of its existence. Gains or losses resulting from changes in fair value are recorded as non-operating activities in the consolidated statement of activities.

J. Endowments

The responsibility for accepting, preserving, and managing those funds entrusted to the University rests, by law, with the Board of Trustees; however, the Trustees have delegated authority for investment decisions to the Investment Committee of the Board of Trustees. The Investment Committee determines investment policy, objectives, and guidelines, including allocation of assets between classes of investments.

The University's investment objective for its endowment assets is to maximize total return within reasonable risk parameters, specifically to achieve a total return, net of expenses, of at least five percent in excess of inflation, as measured by the Consumer Price Index over rolling five-year periods. The achievement of favorable investment returns enables the University to distribute over time increasing amounts from the endowment so that present and future needs can be treated equitably in inflation-adjusted terms. Diversification is a key component of the University's standard for managing and investing endowment funds, and asset allocation targets are subject to ongoing reviews by the Investment Committee.

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

The Board authorizes an annual distribution from endowment funds that is within a target range of 4.4 percent to 5.9 percent of a 12-quarter rolling average of the unit fair value. The Trustees may occasionally make step adjustments, either incremental or decremental, based on prior investment performance, current market conditions, and/or any of the factors for prudent judgment described above. Total distributions, or spending, is presented as investment return, distributed, on the consolidated statement of activities, and includes endowment payout and an administrative fee, net of direct investment expenses, that supports the investment and stewardship costs of the University endowment.

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

K. Revenue

Tuition and fees

Tuition and mandatory fees revenue is recognized within the fiscal year in which educational services are provided. Institutional financial aid reduces the published price of tuition for students receiving such aid. Payments received in advance for summer session courses for credit toward a degree are recorded as deferred revenue.

State and Federal Appropriations

Revenue primarily consists of annual New York State appropriation through the legislative process in support of the contract colleges, and it is recognized over the fiscal year.

Grants and Contracts

Revenue under grants, contracts, and similar agreements comprises federal and non-federal (state, private foundation, etc.) grants and contracts. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization’s mission, or the public at large. Federal grants and non-federal grants with similar restrictions on spending are conditional and revenue is recognized at the time expenditures are incurred. Unconditional non-exchange revenue is recognized in full when a qualifying promise to give has been made, generally when the agreement is finalized. Revenues from exchange transactions are recognized as performance obligations are satisfied, which may be as milestones are achieved or as related costs are incurred.

These revenues typically include the recovery of facilities and administrative costs, which are recognized according to the rates defined in the respective sponsored agreement. Amounts received in advance and in excess of incurred expenditures are recorded as deferred revenues.

Additional information regarding grant and contract revenue is presented below.

GRANTS, CONTRACTS AND SIMILAR AGREEMENTS			
		2019	2018
Federal	\$	539,470	\$ 486,597
State and local		48,167	45,065
Private		268,463	284,626
Total Grants, contracts and similar agreements	\$	<u>856,100</u>	<u>\$ 816,288</u>

Federal revenue is primarily nonreciprocal and conditional. A significant portion of private revenue is received in exchange for benefit to the Qatar Foundation related to the operation of Weill Cornell Medicine-Qatar. At June 30, 2019, the University has unrecorded conditional agreements of \$1,224,906.

Contributions

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the appropriate category of net assets in the period received. A pledge is recorded at the present value of estimated future cash flows, based on an appropriate discount rate determined by management at the time of the contribution. Amortization of this discount in subsequent years is included in contribution revenue. A contribution of assets other than cash is recorded at its estimated fair value on the date of the contribution. Contributions for capital projects, endowments, and similar funds are reported as nonoperating revenues.

The presence of both a barrier and a right of return make a contribution conditional. Conditional promises to give to the University are not recognized until the conditions are satisfied. Net assets with donor restrictions 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.

Medical Physician Organization

The Medical Physician Organization ("MPO") provides the management structure for the practice of medicine for all WCM physicians at the main academic medical center and various clinical practice sites throughout New York City and surrounding areas. In addition to generating clinical practice revenue, MPO members may provide instruction and conduct research activities. MPO revenue represents patient care and management service agreement fees.

MPO patient care revenue is consideration received in exchange for clinical health care services provided to patients. The patient is the customer, regardless of the payor. The contract with the patient exists when the parties have approved the contract for clinical health care services either in writing, verbally or implicitly, based on the MPO's customary business practice. Outpatient services are recognized as the service is provided.

For Medicare, Medicaid and commercial payors, the transaction price is the amount the MPO expects to be entitled to under the contract, which includes explicit price concessions similar to current contractual adjustments. For self-pay, deductibles and co-payments, the transaction price is reduced by implicit price concessions, including estimates of uncollectible amounts. These estimates are based on policies and customary business practices of providing service regardless of the ability to pay, combined with historical collection rates.

The MPO uses a portfolio approach to account for categories of patient contracts rather than recognizing revenue on an individual contract basis. The contracts are categorized and grouped based on service provided, payor, and service location. Based on historical collection trends and other analyses, the MPO believes that revenue recognized using the portfolio approach approximates the revenue that would have been recognized had an individual contract approach been used.

Revenue from management service agreement fees is consideration received in exchange for services provided to an external healthcare provider. Under terms of these contractual arrangements, WCM physicians provide services such as patient care or supervision and teaching of medical staff. The agreements are typically for a one-year term and consideration is fixed in amount. Revenue is recognized throughout the fiscal year as services are rendered.

Additional information regarding MPO revenue is presented below.

MEDICAL PHYSICIAN ORGANIZATION REVENUE			
		2019	2018
Outpatient services			
Commercial	\$	658,036	\$ 636,885
Government		102,334	103,087
Patient and other		185,715	192,793
		<u>946,085</u>	<u>932,765</u>
Management service agreements		170,299	135,398
Total	\$	1,116,384	\$ 1,068,163

Auxiliary enterprises

Auxiliary enterprises support the educational experience of students, and include housing, dining and the campus store. Housing and dining revenues are recognized over the course of the academic year and campus store revenue at the time of the transaction.

Educational activities and other sales and services

Educational activities and other sales and services represents revenue from operations related to the University's mission that are managed like commercial entities. The largest component of Educational activities and other sales and services is consideration received at WCM from New York-Presbyterian Hospital (NYPH) in exchange for providing personnel, space, and other services. The revenue is billed based upon an approved annual joint budget and actual costs incurred. WCM recognizes revenue throughout the fiscal year as services are rendered to NYPH and accrues for any unbilled services as of June 30.

Educational activities and other sales and services also includes activities such as royalties, transportation, parking, testing labs, teaching hotel, non-degree/non-credit course revenue, athletics, etc. These activities comprise exchange transactions with customers, which may be recognized at a specific point in time or over the period of the contract, depending upon when the benefit is derived by the customer. Amounts received in advance are recorded as deferred revenues.

L. Use of Estimates

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

M. Comparative Financial Information

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

N. Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09—Revenue from Contracts with Customers (Topic 606) at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. Qualitative and quantitative disclosures will be required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August of 2015, FASB issued ASU 2015-14—Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which makes ASU 2014-09 effective for the fiscal year ending June 30, 2019. The change became effective for the University July 1, 2018. There was no material impact from adoption. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

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

In August 2016, the FASB issued ASU 2016-14—Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities to improve the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

The significant changes under the new guidance include the reduction of net asset classifications to two categories based on the existence or absence of donor restrictions, and additional disclosure requirements related to board designation of net assets, and related to the liquidity and availability of the entity's financial assets. ASU 2016-14 is effective for the fiscal year ending June 30, 2019. The University consolidated financial statements present net assets with and without donor restrictions and disclose functional expenses and liquidity information as required by the standard.

In June 2018, the FASB issued ASU 2018-08-Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The amendments are intended to assist in evaluating whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and in determining whether a contribution is conditional. The new standard was effective for contributions received for the fiscal year ending June 30, 2019. There was no material impact from adoption.

O. Reclassifications

The University has reclassified the consolidated statement of activities for the year ended June 30, 2018 to conform to current year presentation. Revenue of \$160,550 was moved from Educational activities and other sales and services to Grants, contracts and similar agreements, and bad debt expense is now reflected as contra-revenue in Medical Physician Organization, rather than Supplies and general expense, due to the implementation of ASU 2014-09. Due to the implementation of ASU 2016-14, net assets related to underwater endowments, which were previously reported as without donor restrictions, were adjusted to reflect current year presentation as net assets with donor restrictions. In addition, direct investment office expenses are now reflected as contra-revenue in Investment return, distributed.

Certain items on the consolidated statement of financial position were combined for current year presentation, with conforming adjustments to prior year. Student loans receivable are combined with Accounts receivable and Government advances for student loans are combined with Deferred revenue and other liabilities.

P. Income Taxes

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes on related income pursuant to the appropriate sections of the Internal Revenue Code. In accordance with the accounting standards, the University evaluates its income tax position each fiscal year to determine whether the position is more likely than not to be sustained if examined by the applicable taxing authority. This review had no material impact on the University's consolidated financial statements.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of June 30 are as follows:

LIQUIDITY AND AVAILABILITY		2019
Total assets	\$	13,968,334
Less:		
Endowment funds and other illiquid investments		7,614,722
Land, buildings, and equipment, net		4,347,909
Contributions receivable, net, due after one year		471,200
Funds held in trust by others		133,180
Reinsurance receivable		119,955
Student loans receivable, net		69,393
Financial assets available within one year	\$	1,211,975

Included within Endowment funds and other illiquid investments above is \$1,367,064 in funds functioning as endowment (FFE) as of June 30, 2019. These represent unrestricted operating funds that have been internally designated by the University, which could be liquidated over time, if necessary, to support operations.

The University manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. The University’s cash flows have seasonal variations during the year primarily attributable to tuition billing and a concentration of contributions received at calendar and fiscal year-end. In order to manage liquidity, the University maintains three lines of credit totaling \$200 million; with \$100 million expiring March 2020, \$75 million expiring April 2020, and \$25 million expiring February 2020. As of June 30, 2019, the University had no outstanding borrowings under these agreements. In addition, the University has a taxable commercial paper program with a maximum authorized amount of \$200 million. As of June 30, 2019, the available balance was \$46.1 million.

3. RECEIVABLES

A. Accounts Receivable

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

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

SUMMARY OF ACCOUNTS RECEIVABLE			
		2019	2018
Grants and contracts	\$	101,883	\$ 92,451
New York-Presbyterian Hospital and other affiliates		51,762	51,508
Patients (net of contractual and bad debt allowances)		94,941	100,063
Reinsurance receivable		119,955	122,351
Federal revolving student loans		30,440	39,217
Institutional student loans		38,953	34,555
Student accounts		20,064	12,944
Other		92,062	65,673
Net accounts receivable	\$	<u>550,060</u>	<u>\$ 518,762</u>

Receivables are reduced by an allowance for doubtful accounts of \$34,195 and \$37,572 at June 30, 2019 and 2018, respectively.

The patient accounts receivable for medical services was comprised of the following at June 30, 2019 and 2018, respectively: commercial third parties 78.4 percent and 74.1 percent; federal/state government 15.4 percent and 15.5 percent; and patients 6.2 percent and 10.4 percent. Note 13 provides additional information related to the reinsurance receivable.

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

B. Contributions Receivable

Unconditional promises to give, or pledges, are recorded in the consolidated financial statements at present value using discount rates ranging from 1.5 percent to 7.0 percent. The methodology for estimating uncollectible amounts is based on an analysis of the historical collectability of contributions receivable. Contributions are expected to be realized as follows:

SUMMARY OF CONTRIBUTIONS RECEIVABLE

	2019		2018
Less than one year	\$ 333,704	\$	341,413
Between one and five years	413,715		435,315
More than five years	173,027		164,223
Gross contributions receivable	<u>\$ 920,446</u>	\$	<u>940,951</u>
Less: unamortized discount	(90,648)		(89,292)
Less: allowance for uncollectible amounts	(24,894)		(25,550)
Net contributions receivable	<u>\$ 804,904</u>	\$	<u>826,109</u>

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

EXPECTED PURPOSE OF CONTRIBUTIONS RECEIVABLE

	2019		2018
Program support	\$ 379,210	\$	420,169
Capital purposes	142,253		157,839
Long-term support	283,441		248,101
Net contributions receivable	<u>\$ 804,904</u>	\$	<u>826,109</u>

At June 30, 2019, conditional promises not reflected in the consolidated financial statements, which consist primarily of bequest intentions, were \$592,674. When conditional promises to give become unconditional or payments from bequests are received, they are recorded, and generally will be restricted for long-term support, program support and capital projects as stipulated by the donors.

4. INVESTMENTS

A. General Information

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

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

INVESTMENT POOLS/CATEGORIES AT FAIR VALUE

	2019		2018
Long-term investments (LTI)			
Long-term investment pool (LTIP)	\$ 6,866,988	\$	6,781,595
Other LTI	461,253		448,695
Total LTI	<u>\$7,328,241</u>		<u>\$7,230,290</u>
Separately invested and other assets	428,227		272,739
Total investments	<u>\$ 7,756,468</u>	\$	<u>7,503,029</u>

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

SUMMARY OF INVESTMENT RETURN					
		2019		2018	
Interest and dividends, net of investment fees	\$	60,312	\$	75,590	
Net realized gain/(loss)		283,485		430,245	
Net unrealized gain/(loss)		81,634		121,694	
Total investment return	\$	425,431	\$	627,529	

B. Fair Value

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

INVESTMENTS AT FAIR VALUE					
	Level 1 fair value	Level 2 fair value	Level 3 fair value	Net asset value	2019 Total
Cash and cash equivalents	\$ 113,056	\$ 27,237	\$ -	\$ -	\$ 140,293
Derivatives	-	5,233	-	-	5,233
Equity					
Domestic equity	199,065	458,818	867	-	658,750
Foreign equity	344,327	118,345	2,599	945,468	1,410,739
Hedged equity	-	-	2,526	-	2,526
Private equity	-	-	52,040	1,684,502	1,736,542
Fixed income					
Asset backed fixed income	416	24,163	790	-	25,369
Corporate bonds	225	97,310	1,730	-	99,265
Equity partnership	-	29	-	509,360	509,389
International	9,763	25,423	553	-	35,739
Municipals	122	2,105	-	-	2,227
Mutual funds (non-equity)	282	14,313	-	-	14,595
Preferred/convertible	-	2,743	5,057	-	7,800
Other fixed income	-	161	-	-	161
US government	463,300	55,720	-	-	519,020
Marketable alternatives	-	15,058	-	1,242,452	1,257,510
Real assets	31,630	-	18,749	1,211,610	1,261,989
Receivable for investments sold	31,486	-	-	-	31,486
Payable for investments purchased	(32,190)	-	-	-	(32,190)
Other	-	-	70,025	-	70,025
Total investments	\$ 1,161,482	\$ 846,658	\$ 154,936	\$ 5,593,392	\$ 7,756,468
Securities not included in investment portfolio					
Cash and cash equivalents	\$ 4,375	\$ -	\$ -	\$ -	\$ 4,375

INVESTMENTS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	Net asset value	2018 Total
Cash and cash equivalents	\$ 142,849	\$ 20,272	\$ -	\$ -	\$ 163,121
Derivatives	-	(5,961)	-	-	(5,961)
Equity					
Domestic equity	284,020	315,090	1,654	-	600,764
Foreign equity	386,998	538,044	849	610,424	1,536,315
Hedged equity	-	-	2,788	-	2,788
Private equity	-	-	61,974	1,572,494	1,634,468
Fixed income					
Asset backed fixed income	-	21,282	844	-	22,126
Corporate bonds	-	132,214	2,070	-	134,284
Equity partnership	-	31	-	531,869	531,900
International	2,970	28,632	469	-	32,071
Municipals	-	3,003	-	-	3,003
Mutual funds (non-equity)	196	14,854	-	-	15,050
Preferred/convertible	-	1,380	4,929	-	6,309
Other fixed income	-	495	-	-	495
US government	109,562	59,470	-	-	169,032
Marketable alternatives	-	279	-	1,324,224	1,324,503
Real assets	-	62,694	19,997	1,242,818	1,325,509
Receivable for investments sold	31,701	-	-	-	31,701
Payable for investments purchased	(49,126)	-	-	-	(49,126)
Other	-	-	24,677	-	24,677
Total investments	\$ 909,170	\$ 1,191,779	\$ 120,251	\$ 5,281,829	\$ 7,503,029
Securities not included in investment portfolio					
Cash and cash equivalents	\$ 118,905	\$ -	\$ -	\$ -	\$ 118,905

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

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

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

C. Investments Using Net Asset Value

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

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

SUMMARY OF ALTERNATIVE INVESTMENTS MEASURED USING NET ASSET VALUE				
Asset class	NAV in funds	Unfunded commitments	Timing to draw commitments	Redemption terms*
Private equity	\$ 1,684,502	\$ 685,753	1 to 10 years	These funds are in a private equity structure, with no ability to be redeemed
Real assets	1,211,610	460,110	1 to 10 years	These funds are in a private equity structure, with no ability to be redeemed
Fixed income	509,360	260,805	1 to 10 years	No redemptions available for funds in a private equity structure; balance includes 8% within 7 days, 8% with rolling 2-year redemptions with 90-days notice, and 9% within 5 years**
Foreign equity	945,468	3,800	N.A.	Ranges between thrice-monthly redemption with 2-days notice, to rolling 3-year redemption with 90-days notice
Marketable alternatives	1,242,452	N.A.	N.A.	Ranges between quarterly redemption with 30-days notice, to 33% redemption per year with 60-days notice
Total for alternative investments using NAV	\$ 5,593,392	\$ 1,410,468		

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

** 75% of NAV is in a private equity structure, with no ability to be redeemed. Redemption provisions for the remaining 25% are shown above.

D. Level 3 Investments

The table below presents a summary of Level 3 investment activity. All net realized and unrealized gains/(losses) in the table are reflected in the accompanying consolidated statement of activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30, 2019. There were no significant transfers into or out of Level 3 during the fiscal year ended June 30, 2019.

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITY

	Fair value at June 30, 2018	Realized gain/(loss)	Unrealized gain/ (loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2019
Equity							
Domestic equity	\$ 1,654	\$ -	\$ (787)	\$ -	\$ -	\$ -	\$ 867
Foreign equity	849	(30)	(104)	2,538	(654)	-	2,599
Hedged equity	2,788	(8)	(102)	24	(176)	-	2,526
Private equity	61,974	641	2,961	418	(13,954)	-	52,040
Fixed income							
Asset backed fixed income	844	-	(54)	-	-	-	790
Corporate bonds	2,070	-	(340)	-	-	-	1,730
International	469	(58)	142	-	-	-	553
Preferred/convertible	4,929	-	103	25	-	-	5,057
Other fixed income	-	-	-	-	-	-	-
Real assets							
Real assets	19,997	(1,046)	(72)	-	(130)	-	18,749
Other	24,677	1	162	45,196	(11)	-	70,025
Total level 3 investments	\$ 120,251	\$ (500)	\$ 1,909	\$ 48,201	\$ (14,925)	\$ -	\$ 154,936

Level 3 equities not priced by qualified third parties (e.g., brokers, pricing services, etc.) are valued using discounted cash flows, taking into account various factors including nonperformance risk, counter-party risk, and marketability. Investment value is also derived using a market approach through comparison to recent and relevant market multiples of comparable companies. Start-up assets, held by the University's student-run venture fund or other similar programs, are maintained at or near initial investment amounts due to the nature of the activity.

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

Level 3 real assets represent directly owned real estate, and oil or mineral rights. To the extent feasible, third-party appraisals are used to value real estate directly owned by the University. If current appraisals are not available, fair value is based on the capitalization rate valuation model or discounted cash flow, corroborated by local market data, if available. Oil and mineral rights are valued based on industry standard revenue multiplier methodologies or discounted cash flows.

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

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENT				
	Level 3 fair value	Valuation technique(s)	Unobservable inputs	Range (weighted average)
Equity				
Domestic equity	\$ 867	Start-up valuation		
Foreign equity	2,599	Third-party valuation		
Hedged equity	2,526	Third-party valuation		
Private equity	15,720	Discounted cash flow	Discount rate	4.8%
			Discount for lack of marketability	16.8%
	7,054	Start-up valuation		
	29,266	Third-party valuation		
Fixed income				
Asset backed fixed	790	Sales comparison approach	Recent transactions	
Corporate bonds	1,730	Third-party valuation		
International	553	Third-party valuation		
Preferred/convertible	5,032	Market comparable	Dividend multiple	17.3x - 21.2x (20.4x)
	25	Start-up valuation		
Real assets	4,329	Discounted cash flow	Discount rate	11.1%
	993	Sales comparison approach	Recent transactions	
	4,578	Third-party valuation		
	8,849	Cap rate valuation model	Capitalization rate	5.0%
Other	9,654	Discounted cash flow	Discount rate	1.2% - 5.3% (1.8%)
			Years to maturity	3 - 14 (6)
	1,887	Start-up valuation		
	58,484	Third-party valuation		
Total Level 3 investments	\$ 154,936			

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

E. Derivative Holdings

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

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

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

The University entered into option contracts on interest-rate swaps as a way to mitigate the impact of a significant rise in interest rates in the future. Under the terms of certain option contracts on interest-rate swaps, the University is obligated to make future premium payments. At June 30, 2019 and 2018, the University had unfunded premium payment commitments of \$2,048 and \$3,072 respectively. The University's premium payment schedule is as follows: \$1,024 for the years ending June 30, 2020 and 2021.

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

FAIR VALUE OF DERIVATIVE HOLDINGS IN STATEMENT OF FINANCIAL POSITION							
Location	Derivative type	2019			2018		
		Notional amount	# of Contracts	Fair value	Notional amount	# of Contracts	Fair value
Investments							
	Foreign currency	\$ -	15	\$ (165)	\$ -	28	\$ 426
	Commodity	387,924	62	4,449	130,826	55	(1,735)
	Synthetic	114,281	4	2,853	174,941	16	(2,951)
	Interest rate	-	3	(1,904)	301,004	3	(1,701)
Total fair value		\$ 502,205	84	\$ 5,233	\$ 606,771	102	\$ (5,961)

5. LAND, BUILDINGS, AND EQUIPMENT

A. General Information

Land, buildings, and equipment are detailed as follows:

LAND, BUILDINGS, AND EQUIPMENT			
		Book value at June 30, 2019	Book value at June 30, 2018
Land, buildings, and equipment	\$	6,534,130	\$ 6,232,741
Furniture, equipment, books, and collections		1,417,714	1,371,173
Capital leases		122,473	125,059
Construction in progress		197,155	211,039
Total before accumulated depreciation	\$	8,271,472	\$ 7,940,012
Accumulated depreciation		(3,923,563)	(3,642,965)
Net land, buildings, and equipment	\$	4,347,909	\$ 4,297,047

Certain properties, for which the University has possession and beneficial use for an indefinite period and which other entities may also record as assets, are included in the consolidated statement of financial position, as follows: (1) land, buildings, and equipment of the Contract Colleges aggregating \$745,019 and \$741,078 at June 30, 2019 and 2018, 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 \$625 and \$1,338 at June 30, 2019 and 2018, respectively.

The future commitments on capital projects in progress, excluding projects funded by New York State, are approximately \$60,999 at June 30, 2019.

B. Cornell Tech Campus

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

In 2014, the University broke ground on Roosevelt Island, taking the first steps toward the completion of the Phase I development commitments, which include the first academic building, a residential building, a corporate co-location space, and an executive education facility. The total cost of demolition of the existing structures on the site is considered to be a prepaid cost of the ground lease, and will be amortized over the term of the lease. At June 30, 2019, the unamortized amount of the demolition costs is \$54,769.

On March 31, 2016, the University entered into a joint venture with the Hudson Companies through its subsidiary H/R Tech Residential LLC. The purpose of the new joint venture, called Hudson Cornell Residential JV LLC, is to construct and operate the new residential facility on the Cornell Tech campus. The University has an equity interest of 86.59 percent and controlling financial interest and, therefore, consolidates the joint venture. This consolidation resulted in \$126,334 included in land, buildings, and equipment, net attributed to the joint venture at June 30, 2019. In addition, Hudson Cornell Tech LLC, a subsidiary of Hudson Cornell Residential JV LLC, held bonds and notes payable related the construction of the residential building (“The House at Cornell Tech”) (see Note 9A). Net assets without donor restrictions of \$4,100 and \$4,509, representing the noncontrolling interest of H/R Tech Residential LLC, is also consolidated into the University’s net assets at June 30, 2019 and 2018, respectively. Operating activity related to the joint venture is immaterial in the current fiscal year.

The Tata Innovation Center (formerly “The Bridge”) is a corporate co-location building and condominium association comprised of a “Cornell Unit” and one or more other units initially owned by the developer and/or its affiliates. The University has entered into a lease agreement for the Cornell Unit for a term of thirty-five years. As part of the lease agreement, the University has made a commitment in the form of gap rent for the developer’s unit(s) in an amount not to exceed \$2,982 annually, or \$44,731 over twenty years. The annual amount of gap rent is adjusted based upon the occupancy level in the developer’s unit(s). During the year ended June 30, 2019, a gap rent payment of \$2,982 was made.

Cornell Tech met its first milestone when faculty, staff, and researchers moved into the first academic building (Bloomberg Center) on Roosevelt Island during the summer of 2017, and students, faculty, and researchers moved into the House in advance of the fall semester. In addition, programs and operations in both the Bloomberg Center and The Tata Innovation Center began during the 2017-2018 academic year, rounding out the University’s operational commitments.

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

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

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

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

SPLIT-INTEREST AGREEMENTS AT FAIR VALUE AND LEVEL 3 QUANTITATIVE INFORMATION				
	2019	Valuation	Unobservable	Range
	Total	methodologies	inputs	(weighted average)
Funds held in trust by others				
Remainder	\$ 59,618	Present value calculation	Discount rate	3.00%
			Years to maturity	0-54 (15)
Lead and perpetual	73,562	Discounted cash flows	Discount rate	3.70%
Total funds held in trust by others	<u>\$ 133,180</u>			
Obligations under split interest agreements				
	\$ 134,087	Discounted cash flows	Discount rate	3.60%
			Years to maturity	0-62 (16)
<hr/>				
	2018	Valuation	Unobservable	Range
	Total	methodologies	inputs	(weighted average)
Funds held in trust by others				
Remainder	\$ 53,682	Present value calculation	Discount rate	4.00%
			Years to maturity	0-55 (11)
Lead and perpetual	60,113	Discounted cash flows	Discount rate	4.60%
Total funds held in trust by others	<u>\$ 113,795</u>			
Obligations under split interest agreements				
	\$ 135,331	Discounted cash flows	Discount rate	4.20%
			Years to maturity	0-62 (16)

SUMMARY OF LEVEL 3 SPLIT-INTEREST AGREEMENT ACTIVITY							
	Fair value at June 30, 2018	Realized gain/ (loss)	Unrealized gain/ (loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2019
Funds held in trust by others							
Remainder	\$ 53,682	\$ 1,755	\$ 3,528	\$ 1,284	\$ (631)	\$ -	\$ 59,618
Lead and perpetual	60,113	(144)	13,593	-	-	-	73,562
Total funds held in trust by others	<u>\$ 113,795</u>	<u>\$ 1,611</u>	<u>\$ 17,121</u>	<u>\$ 1,284</u>	<u>\$ (631)</u>	<u>\$ -</u>	<u>\$ 133,180</u>
Obligations under split- interest agreements	\$ 135,331	\$ -	\$ (1,244)	\$ -	\$ -	\$ -	\$ 134,087
<hr/>							
	Fair value at June 30, 2017	Realized gain/ (loss)	Unrealized gain/ (loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value at June 30, 2018
Funds held in trust by others							
Remainder	\$ 50,067	\$ 1,638	\$ (2,053)	\$ 5,099	\$ (1,069)	\$ -	\$ 53,682
Lead and perpetual	60,850	(3,725)	(16)	3,004	-	-	60,113
Total funds held in trust by others	<u>\$ 110,917</u>	<u>\$ (2,087)</u>	<u>\$ (2,069)</u>	<u>\$ 8,103</u>	<u>\$ (1,069)</u>	<u>\$ -</u>	<u>\$ 113,795</u>
Obligations under split- interest agreements	\$ 133,459	\$ -	\$ 1,872	\$ -	\$ -	\$ -	\$ 135,331

7. DEFERRED BENEFITS

A. General Information

Accrued employee benefit obligations as of June 30 include:

SUMMARY OF DEFERRED BENEFITS			
		2019	2018
Post-employment benefits	\$	32,203	\$ 26,034
Pension and other postretirement benefits		381,382	406,852
Other deferred benefits		192,156	188,462
Total deferred benefits	\$	<u>605,741</u>	\$ <u>621,348</u>

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

B. Pension and Postretirement Plans

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

The primary defined contribution plans for endowed colleges at Ithaca and for exempt employees (those not subject to the overtime provisions of the Fair Labor Standards Act) at WCM are funded either by employer contributions based on a percentage of salary or by voluntary employee contributions. The contributions to the defined contribution plans are held on investment platforms

with the Teachers Insurance and Annuity Association (also a recordkeeper to the plans); Vanguard (WCM only); and Fidelity Investments (also a recordkeeper to the endowed colleges at Ithaca only). Total contributions of the endowed colleges at Ithaca and WCM plans for the fiscal years ended June 30, 2019 and 2018 amounted to \$120,971 and \$115,051, respectively.

WCM maintains the University's only defined benefit pension plan. The participants include non-exempt employees at WCM who meet the eligibility requirements for participation. The plan was frozen in 1976 for exempt employees at WCM and the accrued benefits were merged with the active non-exempt retirement plan in 1989. In accordance with the funding requirements applicable to defined benefit plans under the Employee Retirement Income Security Act of 1974 ("ERISA"), the University must contribute to the plan's trust 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.

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

The WCM postretirement plan was amended on June 28, 2019 with an effective date of January 1, 2020. The amendment implemented a new post-age 65 benefit for both current and future retirees (and their spouses) who have not yet reached that age as of December 31, 2019. The new benefit is an annual health reimbursement arrangement ("HRA") contribution, in a fixed amount, provided to retirees and spouses. The impact of the plan amendment is included in the following table.

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C. Obligations and Funded Status

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

	Pension benefits		Other postretirement	
	2019	2018	2019	2018
SUMMARY OF OBLIGATIONS AND FUNDED STATUS				
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 122,885	\$ 111,530	\$ 279,934	\$ 255,181
Actual return on plan assets	8,916	9,186	17,739	19,753
Employer contribution	7,000	6,500	26,991	26,781
Benefits paid	(5,069)	(4,331)	(21,991)	(21,781)
Fair value of plan assets at end of year	\$ 133,732	\$ 122,885	\$ 302,673	\$ 279,934
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 188,285	\$ 175,870	\$ 621,386	\$ 632,041
Service cost (benefits earned during the period)	10,221	10,824	26,555	30,757
Interest cost	8,040	7,658	27,569	26,250
Actuarial (gain)/loss	5,709	(1,736)	23,694	(48,814)
Gross benefits paid	(5,069)	(4,331)	(20,042)	(20,212)
Less: federal subsidy on benefits paid	-	-	1,195	1,364
Plan amendments	-	-	(69,756)	-
Projected benefit obligation at end of year	\$ 207,186	\$ 188,285	\$ 610,601	\$ 621,386
Funded status	\$ (73,454)	\$ (65,400)	\$ (307,928)	\$ (341,452)
Amounts recognized in the consolidated statement of financial position	\$ (73,454)	\$ (65,400)	\$ (307,928)	\$ (341,452)
Amounts recorded in net assets without donor restrictions not yet amortized as components of net periodic benefit cost				
Prior service cost	\$ (232)	\$ (324)	\$ (69,756)	\$ -
Net actuarial (gain)/loss	43,563	38,887	66,486	40,557
Amounts recognized as reduction in net assets without donor restrictions	\$ 43,331	\$ 38,563	\$ (3,270)	\$ 40,557
Amounts recorded in non-operating pension and postretirement changes				
Change in amounts not yet amortized as components of net periodic benefit cost	\$ (4,768)	\$ 5,954	\$ 43,827	\$ 53,287
Other components of net periodic benefit cost	(66)	(2,690)	(7,594)	(10,970)
Total non-operating pension and postretirement changes	\$ (4,834)	\$ 3,264	\$ 36,233	\$ 42,317

The accumulated benefit obligation for the pension plans was \$181,276 and \$160,410 at June 30, 2019 and 2018, 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	
	2019	2018	2019	2018
Service cost (benefits earned during the period)	\$ 10,221	\$ 10,824	\$ 26,555	\$ 30,757
Interest cost	8,040	7,658	27,569	26,250
Expected return on plan assets	(8,951)	(7,818)	(20,081)	(18,773)
Amortization of prior service cost	(92)	(92)	-	-
Amortization of net (gain)/loss	1,069	2,942	106	3,493
Net periodic benefit cost	\$ 10,287	\$ 13,514	\$ 34,149	\$ 41,727

The amounts of prior service costs and actuarial gains/losses that will be amortized into net periodic benefit cost for the year ending June 30, 2020 are estimated as follows:

ESTIMATED COMPONENTS OF NET PERIODIC BENEFIT COST			
	Pension benefits		Other postretirement
Prior service cost	\$	(92)	\$ (12,627)
Net actuarial (gain)/loss		2,068	485
Total	\$	1,976	\$ (12,142)

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	
	2019	2018	2019	2018
Used to calculate benefit obligations at June 30				
Discount rate	3.96%	4.31%	3.83% / 3.62%	4.30% / 4.29%
Rate of compensation increase	3.00%	3.00%		
Used to calculate net periodic cost at July 1				
Discount rate	4.31%	4.04%	4.30% / 4.29%	3.97% / 3.96%
Expected return on plan assets	7.30%	7.00%	7.30%	7.30%
Rate of compensation increase	3.00%	3.00%		
Assumed health care cost trend rates				
Health care cost trend rate assumed for next year	n/a	n/a	5.00% / 6.00%	5.50% / 6.00%
Ultimate trend rate	n/a	n/a	4.50%	4.50%
Years to reach ultimate trend rate	n/a	n/a	2 / 5	3 / 4

The health care cost trend rate assumption has a significant effect on the amounts reported for postretirement health care plans. Increasing the health care cost trend rate by one percent in each future year would increase the benefit obligation by \$104,413 and the annual service and interest

cost by \$12,564. Decreasing the health care cost trend rate by one percent in each future year would decrease the benefit obligation by \$83,520 and the annual service and interest cost by \$9,632.

F. Plan Assets

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

The University’s overall investment objectives for the pension plan and postretirement healthcare plan assets are broadly defined to include an inflation-adjusted rate of return that seeks growth commensurate with a prudent level of risk. To achieve this objective, the University has established fully discretionary trusts with a custodial bank as trustee and investment manager for WCM’s defined benefit pension plan and the postretirement medical benefit plan for the University’s endowed employees on the Ithaca campus. Under those trust agreements the custodial bank implements investment allocations through various investment funds in order to carry out the investment objectives established by the RPOC.

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

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

SUMMARY OF PLAN ASSETS					
	Target allocation	Pension benefits		Other postretirement	
		2019	2018	2019	2018
Percentage of plan assets					
Equity securities	39-85%	62%	64%	69%	77%
Fixed income securities	15-55%	32%	30%	31%	23%
Real estate	0-10%	6%	6%	0%	0%
Total		100%	100%	100%	100%

PENSION PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2019 Total	2018 Total
Cash and cash equivalents					
Money market	\$ 199	\$ -	\$ -	\$ 199	\$ 3
Equity securities					
U.S. small cap	-	2,750	-	2,750	8,463
U.S. large cap	-	25,865	-	25,865	35,989
U.S. multi cap	-	19,737	-	19,737	7,364
U.S. REITS	-	3,272	-	3,272	3,082
Emerging markets	-	7,531	-	7,531	8,075
International equity	-	23,354	-	23,354	16,347
Fixed income securities					
U.S. high yield bonds	-	8,091	-	8,091	5,263
Corporate bonds	-	27,942	-	27,942	23,528
Mortgage-backed securities	-	3,665	-	3,665	3,441
International fixed income	-	3,323	-	3,323	1,225
Floating-rate debt instruments	-	-	-	-	2,457
Other types of investments					
Real estate	-	-	7,784	7,784	7,278
Receivable for investments sold	16,858	-	-	16,858	2,097
Payable for investments purchased	(16,639)	-	-	(16,639)	(1,727)
Total assets	\$ 418	\$ 125,530	\$ 7,784	\$ 133,732	\$ 122,885

SUMMARY OF LEVEL 3 PENSION PLAN ACTIVITY

	Fair value, June 30, 2018	Realized gain/(loss)	Unrealized gain/(loss)	Purchases	Sales	Transfers in/(out) of Level 3	Fair value, June 30, 2019
Real estate	\$ 7,278	\$ -	\$ 396	\$ 110	\$ -	\$ -	\$ 7,784
Total Level 3 assets	\$ 7,278	\$ -	\$ 396	\$ 110	\$ -	\$ -	\$ 7,784

POSTRETIREMENT PLAN ASSETS AT FAIR VALUE

	Level 1 fair value	Level 2 fair value	Level 3 fair value	2019 Total	2018 Total
Cash and cash equivalents					
Money market	\$ 8,633	\$ -	\$ -	\$ 8,633	\$ 1,563
Equity securities					
U.S. small cap	-	26,365	-	26,365	26,586
U.S. large cap	-	95,822	-	95,822	90,548
Emerging markets	-	30,818	-	30,818	35,464
International equity	-	49,782	-	49,782	55,961
U.S. REITS	-	5,642	-	5,642	6,210
Fixed income securities					
U.S. high yield bonds	-	23,976	-	23,976	15,351
Corporate bonds	-	52,592	-	52,592	44,100
Emerging markets debt	-	9,014	-	9,014	4,150
Receivable for investments sold	2,288	-	-	2,288	3,649
Payable for investments purchased	(2,259)	-	-	(2,259)	(3,648)
Total assets	\$ 8,662	\$ 294,011	\$ -	\$ 302,673	\$ 279,934

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					
2020	\$	7,000	\$	25,909	n/a
Future benefit payments					
2020		6,321	22,395	2,039	
2021		7,022	24,009	2,173	
2022		7,752	25,398	2,324	
2023		8,475	26,957	2,474	
2024		8,829	28,686	2,625	
2025-2029		55,949	169,218	15,621	

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 fringe benefit costs are paid directly by the state. The amount of the direct payments applicable to the University as revenue and expenditures is not currently determinable and is not included in the consolidated financial statements. The University reimburses the state for fringe 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, 2019 and 2018 were \$18,414 and \$17,306, respectively, and are included in operating expenses.

8. FUNDS HELD FOR OTHERS

The University, in limited instances, invests funds on behalf of related parties. Independent trustees are responsible for the designation of income distribution. The value of the funds included on the investment line in the consolidated statement of financial position was \$223,932 and \$222,006 for the fiscal years ended June 30, 2019 and 2018, respectively. The University recognizes an offsetting liability for funds held for others, with one adjustment described below.

The New York Hospital-Cornell Medical Center Fund, Inc. (“Center Fund”), which benefits WCM and the New York-Presbyterian Hospital, is the major external organization invested in the University’s long-term investment portfolio with assets of \$185,708 and \$184,225 for the fiscal years ended June 30, 2019 and 2018, respectively. WCM holds a significant beneficial interest in the assets of the Center Fund of \$123,105 and \$113,811, for the fiscal years ended June 30, 2019 and 2018, respectively. The liability related to New York-Presbyterian’s interest is \$62,603 and \$70,414 for the fiscal years ended June 30, 2019 and 2018, respectively.

9. BONDS AND NOTES PAYABLE

A. General Information

Bonds and notes payable are reported at carrying value, which is the par amount net of unamortized issuance costs, premiums, and discounts. Bonds and notes payable as of June 30 are summarized as follows:

SUMMARY OF BONDS AND NOTES PAYABLE					
	2019	2018	Interest rates (%)	Final maturity	
Dormitory Authority of the State of New York (DASNY)					
Revenue Bond Series					
1990B-fixed rate	\$ 24,425	\$ 27,870	4.50 to 5.00	2025	
2000A-variable rate/monthly	32,735	35,355	2.27 to 2.63	2029	
2000B-variable rate/monthly	45,895	49,085	2.27 to 2.63	2030	
2004A&B-variable rate/weekly	59,700	62,825	0.81 to 2.33	2033	
2008B&C-fixed rate	102,700	106,035	5.00	2037	
2009A-fixed rate	-	261,050	4.00 to 5.00	2019	
2010A-fixed rate	285,000	285,000	4.00 to 5.00	2040	
2016A-fixed rate	112,260	117,205	3.00 to 5.00	2035	
2019A-fixed rate	114,575	-	3.00 to 5.00	2029	
2019B-variable rate/daily	92,210	-	0.82 to 2.30	2039	
2019C-variable rate/monthly	79,370	-	2.48 to 2.51	2034	
Tax-exempt commercial paper	-	52,890	0.79 to 1.67	2037	
Tompkins County Industrial Development Agency (TCIDA)					
2002A-variable rate/monthly	28,400	30,365	2.27 to 2.63	2030	
2008A-fixed rate	55,400	57,320	3.00 to 5.00	2037	
Empire State Development	1,250	1,375	-	2029	
2018A-fixed rate	150,000	-	3.85	2048	
2007A Taxable commercial paper	153,890	83,890	2.05 to 2.70	-	
Hudson Cornell Residential JV LLC	97,550	96,630	3.81 to 4.27	2024	
Other	7,948	6,027	4.90 to 6.63	2039	
Outstanding bonds and notes payable	\$ 1,443,308	\$ 1,272,922			
Unamortized premium and issuance costs	43,650	32,729			
Total bonds and notes payable	\$ 1,486,958	\$ 1,305,651			

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

Under the DASNY Revenue Bond Series 1990B and tax-exempt commercial paper notes agreements, these are general obligations of the University and are secured by a pledge of revenue. The University has not granted a pledge of revenue on other debt.

During the fiscal year ended June 30, 2019, the University issued \$150 million taxable fixed rate debt to finance capital projects. The University also issued \$114,575 DASNY Series 2019A, \$92,210 DASNY Series 2019B, and \$79,370 DASNY Series 2019C to effect a current refunding of \$254,000 Series 2009A and \$52,890 of tax-exempt commercial paper. The University amended DASNY Series 2000A&B bonds and TCIDA Series 2002A bonds to extend the agreements to the maturity of the bonds.

During the fiscal year ended June 30, 2019, Hudson Cornell Tech LLC, a subsidiary of Hudson Cornell Residential JV LLC (see Note 5B), extended its loan with Wells Fargo Bank, N.A. for a variable-rate

building and equipment loan up to \$105,000 until February 2024. The University has consolidated \$97,550 and \$96,630 of debt attributable to the subsidiary at June 30, 2019 and 2018, respectively. The loan is secured by a security interest in the building and equipment.

The University maintains tax-exempt and taxable commercial paper programs. Tax-exempt commercial paper is used to finance qualified capital projects and equipment purchases. Taxable commercial paper is also used for these purposes, and can be used to finance short-term working capital needs. The maximum authorized amount of each commercial paper program is \$200 million.

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
2020	\$	38,846	\$	40,752	\$ 79,598
2021		41,174		44,903	86,077
2022		42,842		43,506	86,348
2023		44,522		42,085	86,607
2024		143,988		40,441	184,429
Thereafter		1,131,936		408,415	1,540,351
Total	\$	1,443,308	\$	620,102	\$ 2,063,410

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

B. Interest-Rate Swaps

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

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

The University's swap agreements contain a credit-rating-contingent feature in which the counterparties can request collateral on agreements in net liability positions. At June 30, 2019 and 2018, the University did not have collateral on deposit with any counterparty.

The University's interest-rate swaps are valued as of June 30 by an independent third party that uses the mid-market levels, as of the close of business, to value each agreement. The valuations provided are derived from proprietary models based upon well-recognized financial principles and estimates about relevant future market conditions and the University's credit worthiness. The University's interest-rate swaps are classified as Level 2 in the fair-value hierarchy.

At June 30, 2019, the University had five interest-rate swap agreements to exchange variable-rate cash flows for fixed-rate cash flows without the exchange of the underlying principal amount. Net payments or receipts of the swap agreements are recorded as adjustments to the swap interest and change in value of interest-rate swaps line in the consolidated statement of activities. In all agreements in effect at June 30, 2019, the counterparty pays a variable interest rate equal to a percentage of the one-month LIBOR.

The following table provides detailed information on the interest-rate swaps at June 30, 2019, with comparative fair values for June 30, 2018. The swaps are reported based on notional amount.

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

Location	Notional amount	Interest rate	Termination date	Basis	2019	2018
					Level 2 fair value	Level 2 fair value
Swap interest and change in value of interest-rate swaps						
	\$ 30,365	4.52	July 1, 2030	LIBOR	\$ (5,651)	\$ (5,012)
	85,106	3.92	July 1, 2038	LIBOR	(20,928)	(16,131)
	275,000	3.88	July 1, 2040	LIBOR	(108,938)	(79,298)
	184,230	3.48	July 1, 2041	LIBOR	(42,352)	(30,153)
	187,025	3.77	July 1, 2044	LIBOR	(54,093)	(39,819)
Total fair value					\$ (231,962)	\$ (170,413)

C. Standby Bond Purchase Agreements

During the fiscal year ended June 30, 2019, the University negotiated a standby bond purchase agreement with US Bank for Series 2019B, expiring April 2024, and extended the standby purchase agreement with BNY Mellon for Series 2004 bonds, expiring January 2022. In the event that the bonds cannot be remarketed and the agreement is not otherwise renewed, the University will be required to redeem the bonds or refinance the bonds in a different interest rate mode. In the event that the bonds cannot be remarketed and the University did not redeem, the University will have a current obligation to purchase the bonds tendered.

D. Lines of Credit

The University maintains three lines of credit totaling \$200 million. \$100 million expiring March 2020, \$75 million expiring April 2020, and \$25 million expiring February 2020. The lines of credit are used on a limited basis and as of June 30, 2019 and 2018, the University had no outstanding borrowings under these agreements. The University records the working capital lines of credit activity and outstanding balances as other liabilities in the consolidated statement of financial position.

10. LEASES

The University enters into lease agreements for the use of real property, machinery, and equipment. Total operating lease expenses were \$48,718 and \$43,227 for the fiscal years ended June 30, 2019 and 2018, respectively. The future annual minimum lease payments in the following table are payments under operating leases expiring at various dates through June 30, 2068, and payments under capital leases expiring at various dates through September 30, 2051. The capital lease balance is primarily related to building leases for the Breazzano Family Center for Business Education at Ithaca and the Tata Innovation Center at Cornell Tech.

ANNUAL MINIMUM LEASE PAYMENTS

Year	Capital	Operating
2020	\$ 8,500	\$ 49,365
2021	8,493	48,696
2022	8,402	44,818
2023	8,952	42,835
2024	8,913	41,706
Thereafter	283,493	331,037
Total minimum lease payments	\$ 326,753	\$ 558,457
Less: Amount representing interest	(207,731)	
Present value of net minimum lease payments	\$ 119,022	

11. FUNCTIONAL EXPENSES AND STUDENT AID

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

FUNCTIONAL EXPENSES							
	Instruction, student services and academic support	Research	Public service	Healthcare services	Institutional support	Enterprises and subsidiaries	2019 Total
Compensation and benefits	\$ 1,011,199	\$ 358,723	\$ 85,704	\$ 978,450	\$ 324,628	\$ 125,296	\$ 2,884,000
Other operating expenses	334,942	230,974	39,059	245,918	97,529	115,203	1,063,625
Maintenance and facilities costs	13,081	7,300	7,347	36,024	50,649	24,861	139,262
Interest expense	25,934	12,654	379	25	6,268	12,078	57,338
Depreciation expense	133,166	53,577	5,334	47,320	27,787	37,634	304,818
Total operating expenses	\$ 1,518,322	\$ 663,228	\$ 137,823	\$ 1,307,737	\$ 506,861	\$ 315,072	\$ 4,449,043
Other components of net periodic benefit cost	902	(99)	(10)	5,882	886	99	7,660
Total	\$ 1,519,224	\$ 663,129	\$ 137,813	\$ 1,313,619	\$ 507,747	\$ 315,171	\$ 4,456,703

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 \$179,062 and \$150,994 for the fiscal years ended June 30, 2019 and 2018, respectively.

Student financial assistance is shown as a component of instruction expense unless the assistance is for tuition and mandatory fees. If the assistance is for tuition and mandatory fees, the amounts are recorded as scholarship allowance, which reduces tuition revenue. Total financial assistance amounts classified as instruction expense were \$46,908 and \$49,394 for the fiscal years ended June 30, 2019 and 2018, respectively.

12. NET ASSETS

A. General Information

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

SUMMARY OF NET ASSETS						
	Without donor restrictions	With donor restrictions	2019 Total	Without donor restrictions	With donor restrictions	2018 Total
Endowment						
True endowment	\$ -	\$ 5,062,037	\$ 5,062,037	\$ -	\$ 4,927,564	\$ 4,927,564
Funds functioning as endowment (FFE)	1,367,064	354,033	1,721,097	1,422,855	351,752	1,774,607
Total true endowment and FFE	\$ 1,367,064	\$ 5,416,070	\$ 6,783,134	\$ 1,422,855	\$ 5,279,316	\$ 6,702,171
Funds held by others, perpetual	-	191,503	191,503	-	169,310	169,310
Total University endowment	\$ 1,367,064	\$ 5,607,573	\$ 6,974,637	\$ 1,422,855	\$ 5,448,626	\$ 6,871,481
Other net assets						
Operations	\$ (98,414)	\$ 455,559	\$ 357,145	\$ (246,163)	\$ 471,590	\$ 225,427
Student loans	9,419	51,796	61,215	9,033	50,253	59,286
Facilities and equipment	2,873,518	118,985	2,992,503	2,939,859	103,772	3,043,631
Annuity and other split-interest agreements	-	172,221	172,221	-	166,687	166,687
Contributions receivable, net	-	804,904	804,904	-	826,109	826,109
Long-term accruals	(728,960)	-	(728,960)	(688,298)	-	(688,298)
Total net assets	\$ 3,422,627	\$ 7,211,038	\$ 10,633,665	\$ 3,437,286	\$ 7,067,037	\$ 10,504,323

Net asset balances for operations (without donor restrictions) are affected primarily by operating activities and strategic decisions to invest expendable balances in funds functioning as endowment and capital projects. Long-term accruals represent longer-term liabilities including the unfunded amount of pension and postretirement benefits, vacation accruals, conditional asset retirement obligations for asbestos remediation, and fair-value adjustment on interest-rate swaps.

B. Endowment

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

SUMMARY OF ENDOWMENT PURPOSE		
	2019	2018
Academic programs and research	\$ 1,978,914	\$ 1,966,874
Financial aid	1,784,316	1,733,832
Professorships	1,475,443	1,447,617
General purpose and facilities support	1,382,125	1,384,398
CU Foundation	162,336	169,450
Total true endowment and FFE, end of year	\$ 6,783,134	\$ 6,702,171

Of the endowment assets held at the University, 98 percent was invested in the long term investment pool (“LTIP”) at June 30, 2019 and 2018. The LTIP is a mutual-fund-like vehicle used for investing the University’s true endowments, funds functioning as endowment, and other funds that are not expected to be expended for at least five years. The University employs a unit method of accounting for the LTIP. Each participating fund enters into and withdraws from the pooled investment account based on monthly unit fair values. Participation in the LTIP using unrestricted funds requires a minimum investment of one hundred thousand dollars and a commitment of at least five years.

At June 30, 2019, 306 of 7,317 true endowment funds invested in the LTIP had a total historic dollar value of \$153,584 and a fair value of \$140,029, resulting in these endowments being underwater by a total of \$13,555. The University holds significant appreciation on endowments to offset these temporary decreases in value. The University has maintained these true endowment funds at their historical book value.

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

SUMMARY OF ENDOWMENT ACTIVITY						
	Without donor restrictions	With donor restrictions	2019 Total	Without donor restrictions	With donor restrictions	2018 Total
True endowment and FFE, beginning of year	\$ 1,422,855	\$ 5,279,316	\$ 6,702,171	\$ 1,395,479	\$ 4,940,040	\$ 6,335,519
Investment return						
Net investment income	7,678	25,889	33,567	12,618	37,579	50,197
Net realized and unrealized gain/(loss)	75,791	233,986	309,777	185,475	404,063	589,538
Total investment return	\$ 83,469	\$ 259,875	\$ 343,344	\$ 198,093	\$ 441,642	\$ 639,735
New gifts	2,342	117,452	119,794	5,703	136,892	142,595
Amounts appropriated for expenditure/reinvestment	(75,883)	(231,790)	(307,673)	(78,925)	(232,431)	(311,356)
Other changes and reclassifications	(65,719)	(8,783)	(74,502)	(97,495)	(6,827)	(104,322)
Total true endowment and FFE, end of year	\$ 1,367,064	\$ 5,416,070	\$ 6,783,134	\$ 1,422,855	\$ 5,279,316	\$ 6,702,171

13. SELF-INSURANCE

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

A. Medical Malpractice

The University obtains medical malpractice insurance through MCIC Vermont (“MCIC”). MCIC is a reciprocal risk retention group that provides medical malpractice insurance coverage and risk management services to its subscribers.

MCIC is owned by the University, New York-Presbyterian Hospital, and four other institutions of higher education and their respective teaching hospitals. All of WCM’s faculty physicians are enrolled in MCIC. The medical malpractice incurred-but-not-reported liability is calculated annually on an actuarial basis.

WCM has recorded medical malpractice liabilities of \$169,736 and \$170,633 at June 30, 2019 and 2018, respectively, as accrued expenses in the consolidated statement of financial position. In addition, WCM maintains a reinsurance program with MCIC with anticipated recoveries of \$119,955 and \$122,351, respectively, recorded as accounts receivable (Note 3A).

B. Student Health Plan

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

SUMMARY OF STUDENT HEALTH PLAN OPERATIONS						
	July 1 - July 31 (prior plan year)	August 1 - June 30 (current plan year)	2019 Fiscal year total	July 1 - July 31 (prior plan year)	August 1 - June 30 (current plan year)	2018 Fiscal year total
Total premium revenue	\$ 3,360	\$ 33,804	\$ 37,164	\$ 2,475	\$ 29,897	\$ 32,372
Expenses						
Medical and prescription drug expense	3,434	24,554	27,988	2,819	21,000	23,819
Health center capitation	826	6,885	7,711	523	5,847	6,370
Administrative fees	427	3,184	3,611	381	3,240	3,621
Total expenses	\$ 4,687	\$ 34,623	\$ 39,310	\$ 3,723	\$ 30,087	\$ 33,810
Net income from health plan operations	\$ (1,327)	\$ (819)	\$ (2,146)	\$ (1,248)	\$ (190)	\$ (1,438)

The University has established reserves with the amounts necessary to satisfy obligations of the plan. Based on an analysis and recommendation of a qualified actuary, and with the approval of New York State, the reserve for medical claims incurred-but-not-reported and claims reported but not paid (“RBNP”) is maintained at an amount not less than 14.5 percent of expected medical claims and 5 percent of expected pharmacy drug claims. In addition, a separate contingency reserve has been established for the purpose of satisfying unexpected obligations in the event of termination of the plan. The contingency reserve is maintained at an amount not less than 5 percent of the total current plan year premiums and is invested in the University’s endowment. NYS requires that the assets of the contingency reserve consist of certain investments of the types specified in Section 1404 of NYSIL. The specified types of investments include U.S. government securities categorized in fair-value hierarchy Level 1, of which the University holds \$463,300 and \$109,562 in its investment portfolio as of June 30, 2019 and 2018, respectively (Note 4B). Premium revenue is billed in advance of the plan year (unearned) and recognized as revenue on a monthly basis as coverage is provided. The changes in the unearned premiums and SHP reserves during the fiscal years ended June 30 are presented below.

SUMMARY OF STUDENT HEALTH PLAN UNEARNED PREMIUMS					
	2019		2018		
	Unearned premiums		Unearned premiums		
	2017-2018 plan year	2018-2019 plan year	2016-2017 plan year	2017-2018 plan year	
Balance as of July 1	\$ 2,764	\$ -	\$ 2,270	\$ -	
Balance as of June 30	-	2,837	-	2,764	
Net change	\$ (2,764)	\$ 2,837	\$ (2,270)	\$ 2,764	

SUMMARY OF STUDENT HEALTH PLAN RESERVES					
	IBNR/RBNP reserve		Contingency reserve		
	2019	2018	2019	2018	
Balance as of July 1	\$ 3,275	\$ 3,203	\$ 1,863	\$ 1,723	
Balance as of June 30	3,394	3,275	2,104	1,863	
Net change	\$ 119	\$ 72	\$ 241	\$ 140	

14. CONTINGENT LIABILITIES

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

15. SUBSEQUENT EVENTS

In September 2019, the University issued \$121.4 million tax-exempt fixed-rate debt, maturing in July 2036, to finance capital projects. Based on the University’s evaluation of subsequent events through October 17, 2019, the date on which the consolidated financial statements were issued, there were no other events with material impact on the University’s consolidated financial statements.

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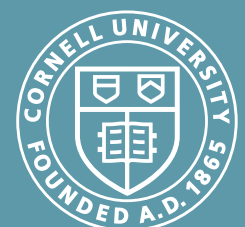
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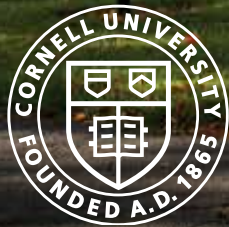
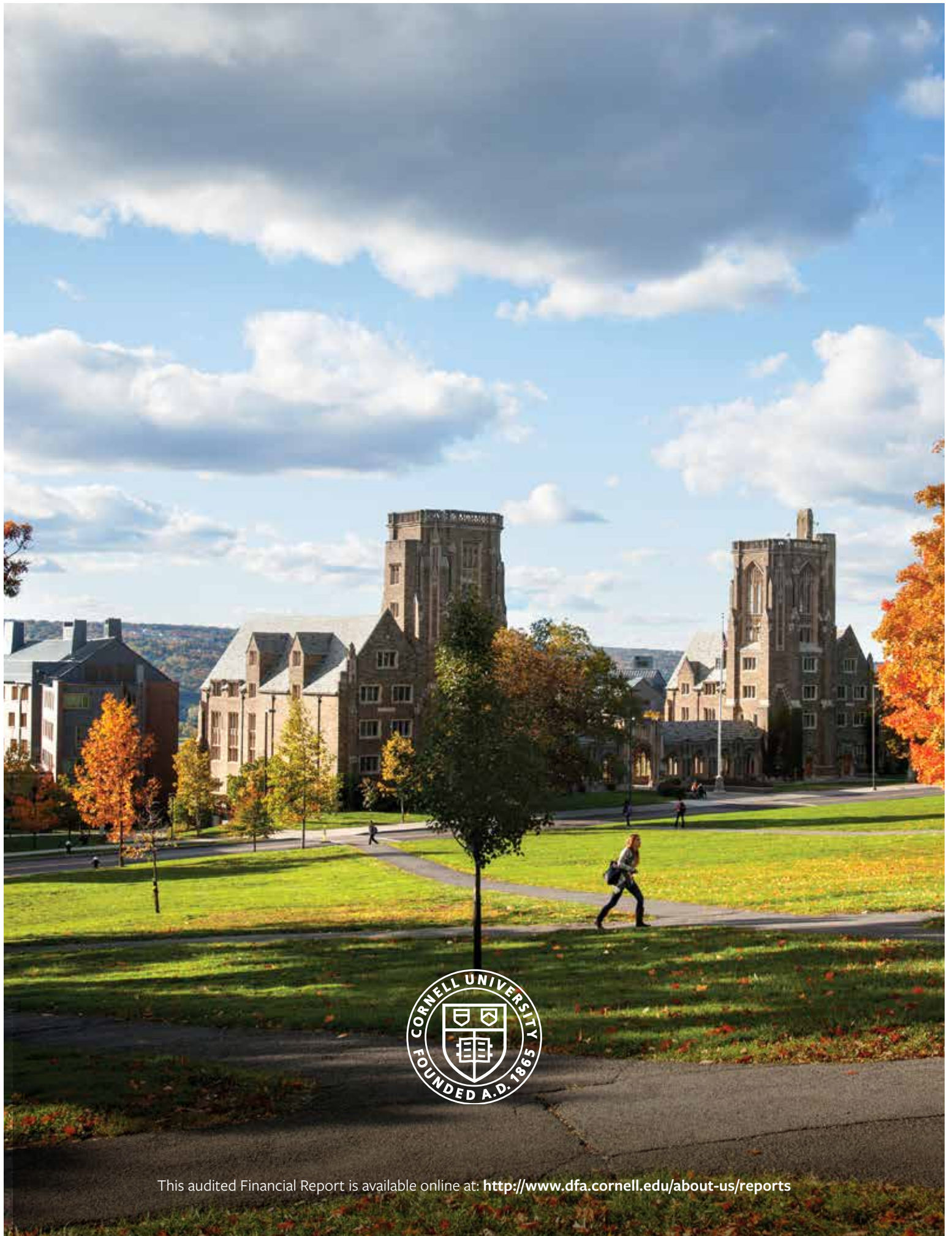
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