

CORNELL COLLEGE
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

**CORNELL COLLEGE
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YEARS ENDED JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cornell College
Mount Vernon, Iowa

We have audited the accompanying financial statements of Cornell College, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Cornell College as of June 30, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As described in Note 1, the College adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-04, Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. Our opinion is not modified with respect to that matter.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 28, 2017

**CORNELL COLLEGE
BALANCE SHEETS
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 8,907,482	\$ 8,439,059
Accounts Receivable, Less Allowance for Doubtful Accounts of \$385,886 and \$270,906 in 2017 and 2016, Respectively	399,829	515,699
Inventories and Prepaid Expenses	806,665	778,531
Contributions Receivable, Net	24,420,676	22,604,688
Student Loans Receivable, Net	1,697,346	1,872,193
Investments	75,242,434	71,542,241
Property, Plant, and Equipment, Net	78,552,861	78,375,420
Total Assets	\$ 190,027,293	\$ 184,127,831
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable, Accrued Expenses, and Deposits	\$ 2,997,015	\$ 2,380,340
Student Tuition Paid in Advance	193,703	172,598
Contract Advances	3,244,396	3,539,795
Asset Retirement Obligation	417,626	428,811
Net Long-Term Debt	21,805,358	24,200,537
Life-Income Payable	1,732,239	1,830,813
Due to U.S. Government, Refundable Loan Program	621,706	870,335
Total Liabilities	31,012,043	33,423,229
NET ASSETS		
Without Donor Restrictions		
Undesignated	7,414,158	9,917,954
Investment in Property, Plant, and Equipment	56,747,503	54,174,883
Board-Designated Endowment	3,443,891	3,345,541
Total Without Donor Restrictions	67,605,552	67,438,378
With Donor Restrictions		
Perpetual in Nature	71,097,318	69,286,257
Purpose Restrictions	11,239,098	10,966,220
Time Restricted for Future Periods	15,700,417	10,291,316
Underwater Endowments	(6,627,135)	(7,277,569)
Total With Donor Restrictions	91,409,698	83,266,224
Total Net Assets	159,015,250	150,704,602
Total Liabilities and Net Assets	\$ 190,027,293	\$ 184,127,831

See accompanying Notes to Financial Statements.

CORNELL COLLEGE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017		
	Without	With	Total
	Donor Restrictions	Donor Restrictions	
REVENUES			
Tuition and Fees	\$ 37,595,934	\$ -	\$ 37,595,934
Less: Scholarships and Grants	(21,225,630)	-	(21,225,630)
Net Tuition and Fees	16,370,304	-	16,370,304
Contributions and Grants	2,256,498	1,234,100	3,490,598
Investment Income	156,422	48,536	204,958
Investment Income - Spending Rate	236,046	5,244,323	5,480,369
Other Revenues	1,067,963	530	1,068,493
Sales and Services of Auxiliary Enterprises	8,185,695	-	8,185,695
Total Revenues	28,272,928	6,527,489	34,800,417
Net Assets Released from Restrictions	10,793,178	(10,793,178)	-
Total Revenues	39,066,106	(4,265,689)	34,800,417
EXPENSES			
Instruction	13,686,923	-	13,686,923
Academic Support and Research	2,635,423	-	2,635,423
Student Services	8,610,485	-	8,610,485
Institutional Support	3,865,400	-	3,865,400
Institutional Advancement	2,685,679	-	2,685,679
Auxiliary Enterprises	7,462,057	-	7,462,057
Total Expenses	38,945,967	-	38,945,967
CHANGE IN OPERATING NET ASSETS	120,139	(4,265,689)	(4,145,550)
Investment Income Greater (Less) Than Spending Rate	30,867	1,800,223	1,831,090
Contributions	-	10,775,303	10,775,303
Actuarial Adjustment on Life Income and Annuity Agreements	67,480	(166,043)	(98,563)
Change in Value of Perpetual Trust	-	(320)	(320)
Restructuring and Settlements of Severance Plan	-	-	-
Loss on Disposition of Property, Plant, and Equipment	(51,312)	-	(51,312)
CHANGE IN NET ASSETS	167,174	8,143,474	8,310,648
Net Assets - Beginning of Year	67,438,378	83,266,224	150,704,602
Reclassification - Adoption of FASB 2016-14	-	-	-
Net Assets - Beginning of Year Restated	67,438,378	83,266,224	150,704,602
NET ASSETS - END OF YEAR	\$ 67,605,552	\$ 91,409,698	\$ 159,015,250

See accompanying Notes to Financial Statements.

2016		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 38,702,466	\$ -	\$ 38,702,466
(21,831,233)	-	(21,831,233)
<u>16,871,233</u>	<u>-</u>	<u>16,871,233</u>
2,111,816	801,930	2,913,746
21,902	167,653	189,555
(129,206)	3,181,333	3,052,127
1,264,625	425	1,265,050
<u>8,310,355</u>	<u>-</u>	<u>8,310,355</u>
<u>28,450,725</u>	<u>4,151,341</u>	<u>32,602,066</u>
<u>9,956,424</u>	<u>(9,956,424)</u>	<u>-</u>
<u>38,407,149</u>	<u>(5,805,083)</u>	<u>32,602,066</u>
12,975,738	-	12,975,738
2,719,873	-	2,719,873
8,551,660	-	8,551,660
3,614,333	-	3,614,333
2,487,101	-	2,487,101
<u>7,320,489</u>	<u>-</u>	<u>7,320,489</u>
<u>37,669,194</u>	<u>-</u>	<u>37,669,194</u>
737,955	(5,805,083)	(5,067,128)
30,138	(5,238,044)	(5,207,906)
-	3,986,432	3,986,432
-	(114,878)	(114,878)
-	372	372
1,249,973	-	1,249,973
<u>(278,230)</u>	<u>-</u>	<u>(278,230)</u>
1,739,836	(7,171,201)	(5,431,365)
61,481,082	94,654,885	156,135,967
<u>4,217,460</u>	<u>(4,217,460)</u>	<u>-</u>
<u>65,698,542</u>	<u>90,437,425</u>	<u>156,135,967</u>
<u>\$ 67,438,378</u>	<u>\$ 83,266,224</u>	<u>\$ 150,704,602</u>

CORNELL COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 8,310,648	\$ (5,431,365)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	4,666,883	4,324,384
Change in Asset Retirement Obligation	(11,185)	(57,449)
Write-Off of Contribution Receivable	43,000	14,264
Actuarial Adjustment of Annuities and Life Income Payable	98,563	114,878
Change in Value of Perpetual Trust	320	(372)
Net Depreciation (Appreciation) on Investments	(7,311,779)	2,155,779
Noncash Donations of Investments and Equipment	(1,116,603)	(407,209)
Contributions Restricted for Long-Term Investment and Property, Plant, and Equipment	(5,065,184)	(1,650,237)
Loss on Disposal of Property, Plant, and Equipment	51,312	278,230
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	115,870	(349,520)
Increase (Decrease) in Contributions Receivable	(1,815,988)	213,119
Increase in Inventory and Prepaid Expenses	(28,134)	(477,081)
Increase (Decrease) in Accounts Payable and Accrued Expenses	505,008	(2,234,943)
Increase (Decrease) in Severance Plan Liability	-	(2,454,157)
Increase (Decrease) in Other Liabilities	21,105	(61,345)
Net Cash Used by Operating Activities	(1,536,164)	(6,023,024)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(39,805,471)	(20,693,533)
Proceeds from Sales and Maturities of Investments	44,533,340	22,244,066
Disbursements of Student Loans	(129,699)	(96,468)
Repayments of Student Loans	304,546	314,894
Purchase of Property and Equipment	(4,830,094)	(5,685,018)
Net Cash Provided (Used) by Investing Activities	72,622	(3,916,059)

See accompanying Notes to Financial Statements.

CORNELL COLLEGE
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Indebtedness	\$ -	\$ 4,481,833
Repayments of Principal on Indebtedness	(2,349,054)	(1,161,645)
Net Proceeds (Payments) from Contract Advances	(295,399)	738,634
Cash Received from Contributions Restricted for Long-Term Investment and Property, Plant, and Equipment	5,022,184	3,524,234
Change in Annuities Payable	(98,488)	(31,262)
Investment Income Restricted for Life Income Agreements	122,168	109,075
Payments to Annuitants and Life Income Recipients	(220,817)	(224,040)
Net Cash Provided by Financing Activities	1,931,965	7,436,829
NET CHANGE IN CASH AND CASH EQUIVALENTS	468,423	(2,502,254)
Cash and Cash Equivalent - Beginning of Year	8,439,059	10,941,313
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 8,907,482	\$ 8,439,059
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	\$ 721,429	\$ 615,998
Accounts Payable Incurred for Debt Issuance Costs	\$ 111,667	\$ -
Accounts Payable Incurred for Purchase of Property and Equipment	\$ 1,008,471	\$ 145,739

See accompanying Notes to Financial Statements.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Cornell College (the College) is a nationally ranked, highly selective liberal arts college of 1,000 students characterized by life-changing academic immersion in the One Course At A Time curriculum. This intensive focus lays the foundation for a student's entire Cornell education: transformative intellectual partnerships that bring out the best in our ambitious students. Within our curriculum, students dive in, focus intensely, and learn authentically in every course they take. Unlike the semester system, the College offers an education at the speed of life with no slow intros, far off exams or papers, or gaps between classes. At the heart of a Cornell College education are frequent opportunities for experiential learning. The One Course curriculum frees students to explore new ways to learn—faculty can take entire classes on field trips for a day or an entire block—in whatever venues best suit the subject of the class. The College's distinctive calendar immerses students in full-time internships, research, or other hands-on opportunities, producing substantial real-world experiences.

The College attracts an engaged student body from across the nation and around the world. They become quickly involved in campus life, living in a common rhythm due to their focused academic calendar schedules that brings them closer together as a community on a socially, culturally, and politically engaged campus. The College students come from 45 states, two U.S. territories, and 20 foreign countries, and a typical first-year class includes more than 20% domestic students of color and 5% international students. The campus is diverse on many levels and expands its global environment by drawing international speakers, artists, and authors to campus.

The College's setting on a wooded hilltop in Mount Vernon, Iowa offers a classic, beautiful, and safe collegiate setting. A brick pedestrian mall along the ridge of the hilltop links modern facilities with numerous buildings on the National Register of Historic Places. Mount Vernon—noted as one of the 10 Coolest Small Towns in America—provides students an idyllic small college town atmosphere but also connects them to the Eastern Iowa Creative Corridor. 93% of the College graduates complete their degrees in four years or less, 55% of the College graduates complete an advanced degree, and 94% of the class of 2016 who sought employment are employed. The College's law school acceptance rate is 91%, compared to the national average of 85%. The College's medical acceptance rate is 76%, compared to the national average of 39%. The College has been known as one of the 40 "Colleges that Change Lives," based on the Loren Pope book now in its fourth edition since 1996. Its distinctive curriculum within the liberal arts provides a solid path to professional achievement and personal fulfillment.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. The governing board has designated, from net assets without donor restrictions, board-designated endowment, and investment in property, plant, and equipment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities, other than endowment and similar funds, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of time restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets; net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of property, plant, and equipment without donor restrictions concerning the use of such long-lived assets are reported as revenue of the net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property, plant, and equipment are reported as revenue of the net assets with donor restrictions; the restrictions are considered to be released at the time of acquisition of such long-lived assets. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Income, realized gains and losses, and unrealized gains and losses on investments of endowment and similar funds are reported as net assets with donor restrictions.

The board of trustees designates a portion of the College's cumulative unrestricted investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines.

Cash and Cash Equivalents

The College considers all highly liquid debt instruments purchased with a maturity date of less than three months to be cash equivalents except for money market funds held for long-term investment and deposits with bond trustees.

Cash in excess of daily requirements is invested in interest bearing accounts and money market funds of qualified financial institutions in amounts that frequently exceed insured limits. The College has not experienced any losses in these investments.

Student Accounts Receivable and Student Loans Receivable

Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience. Student accounts and loans receivable are written off when deemed uncollectible and student loans receivable may be assigned to the U.S. Department of Education. Recoveries of student accounts and loans receivable previously written off are recorded when received. The provision for bad debts charged to expense, net of recoveries, was a net expense of \$167,933 and \$59,451 for the years ended June 30, 2017 and 2016, respectively.

Interest is charged on student accounts receivable that are past due and is recognized as it is charged. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding at the beginning of the term to which the charges relate. Once a student is no longer enrolled, accrual of interest is suspended.

Interest is charged and recognized on student loans receivable after a student is no longer enrolled in an institution of higher education and after a grace period. Interest is recognized as charged. Late charges are charged if payments are not paid by the payment due date and are recognized as they are received. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education or in the case of loan funds of the College, based on the respective loan program.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates of 2%. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity. For the years ended June 30, 2017 and 2016, the College had an allowance of \$200,000.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included in the statement of activities. Donated investments are recorded at fair value on the date received.

Alternative investments, such as private equity, absolute return hedge funds, real estate investment trusts, and natural resource funds consist primarily of investments that are not readily marketable. Investments in these categories are valued utilizing the most current information provided by the general partner or manager of the fund. Because these alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Farms and city real estate are carried at cost or, if received as a donation, at the fair market value at the date received less applicable accumulated depreciation.

Realized gains are calculated using the average cost method.

Property, Plant, and Equipment

Land and campus improvements, buildings, rental properties, equipment, and library books over \$5,000 are stated at cost at date of acquisition or fair value at date of gift, less accumulated depreciation computed on a straight-line basis over the following estimated useful lives. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Campus Land Improvements	20 Years
Buildings and Rental Properties	50 Years
Equipment	5 -10 Years
Library Books	10 Years

Pension Plan

The College has a pension plan covering substantially all of its employees. The total pension expense for the years ended June 30, 2017 and 2016 was \$1,021,348 and \$973,349, respectively. The plan is of the defined-contribution type whereby the College contributes a specified percentage of the employee's salary and the employee's benefit is whatever amount the accumulated contributions will buy.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Self-Insurance

The College is self-insured with respect to its health insurance coverage. The College maintains reinsurance that carries a specific stop-loss of \$75,000 per participant covered for the period January 1, 2017 to December 31, 2017 and an aggregate stop-loss of 125% of total expected claims. Expected claims are estimated to be approximately \$1,786,197. For the years ended June 30, 2017 and 2016, the amount of health insurance expense, including administrative costs, and reinsurance costs, net of stop loss recoveries received or receivable, was \$1,764,524 and \$1,570,620, respectively.

Asset Retirement Obligations

The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The College reviews its estimates annually and adjusts the recorded liability as needed (see Note 11).

Due to U.S. Government

Amounts due to the U.S. government include advances under the Perkins Loan Program and the program's cumulative net income as these funds are ultimately refundable to the U.S. government.

Student Tuition Paid in Advance and Contract Advances

The College records cash received for future services as deferred revenue. This revenue is recognized when services are provided. Deferred revenue consists primarily of unearned tuition and advances received on long-term contracts.

Revenue Recognition

Tuition, fees, and room and board revenue is recognized in the year the services are performed. Net tuition and fees are computed after deducting financial aid awarded to students. In order to assist students in meeting tuition and other costs of attendance, the College administers a variety of federal, state, institutional, and private programs. Financial aid packages to students may include direct grants, loans, and employment during the academic year. Investment income is recognized as it is earned.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The College is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The College may be subject to federal and state income taxes on any net income from unrelated business activities. The College files a Form 990 (Return of Organization Exempt from Income Tax) annually and unrelated business income (UBI) is reported on Form 990-T, as appropriate. Management has evaluated their material tax positions, which include such matters as the tax-exempt status and various positions relative to potential sources of UBI. As of June 30, 2017 and 2016, there were no uncertain tax benefits identified and recorded as a liability.

Advertising

The College follows the policy of charging advertising costs to expense as incurred. Total advertising expense is not material to the College's financial statements.

Functional Expenses

The College reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS). During the year expenses are directly coded to program (instruction, academic support and research, student services, and auxiliary enterprises) or support services (institutional support and institutional advancement) whenever possible. Expenses which are not directly identifiable by program or support service are allocated based on the best estimates of management. In Note 10 the College has presented the natural classification detail of expenses by function.

The College incurred fundraising costs of approximately \$1,715,000 and \$1,518,000 for the years ended June 30, 2017 and 2016, respectively. These expenses are included with institutional advancement on the statements of activities.

Measure of Operations

In its statements of activities, the College includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Nonoperating activity consists primarily of investment income greater (less) than spending rate, change in value of split interest agreements, loss on disposal of property, plant, and equipment, amendments and settlements to the accrued severance plan liability, contributions restricted for capital campaign, and permanently restricted contributions.

Subsequent Events

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through October 28, 2017, the date the financial statements were available to be issued.

Reclassifications

Certain amounts in 2016 have been reclassified for comparative purposes to conform to the presentation in 2017. The reclassifications have no effect on the previously reported change in net assets or net assets balance.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change In Accounting Principle

The College has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-04, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity. The effect of adopting the new standard resulted in a reclassification of net assets from net assets without donor restrictions to net assets with donor restrictions of \$4,217,460 during the year ended June 30, 2016 as a result of the change in required reporting for underwater endowment funds.

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Contributions Receivable Expected to be Collected in:		
Less than One Year	\$ 5,455,034	\$ 5,820,570
One Year to Five Years	17,703,631	16,761,703
Over Five Years	<u>3,199,775</u>	<u>1,752,299</u>
Gross Contributions Receivable	26,358,440	24,334,572
Less:		
Allowance for Uncollectibles	(200,000)	(200,000)
Unamortized Discount for Time Value of Money *	<u>(1,737,764)</u>	<u>(1,529,884)</u>
Net Contributions Receivable	<u>\$ 24,420,676</u>	<u>\$ 22,604,688</u>

* The discount rate used ranged from 2% to 6%.

The above contributions receivable have been included in the following net asset categories as of June 30:

	<u>2017</u>	<u>2016</u>
Without Donor Restrictions	\$ 2,466,080	\$ 5,528,962
With Donor Restrictions	<u>21,954,596</u>	<u>17,075,726</u>
Total	<u>\$ 24,420,676</u>	<u>\$ 22,604,688</u>

Of total gross contributions receivable as of June 30, 2017 and 2016, approximately \$22,935,000 and \$23,162,000, respectively, are due from current and life members of the board of trustees of the College.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 STUDENT LOANS RECEIVABLE

The College's student loans receivable consist of a revolving loan fund for Federal Perkins Loans for which the College acts as an agent for the federal government in administering the loan program and an institutional loan fund created by the College to assist students in funding their education.

The College determined their allowance for doubtful accounts on these student loans by looking at historical default rates and analyzing the aging of the past due loans. During the years ended June 30, 2017 and 2016, the College has not significantly changed its methodology for the allowance for doubtful accounts on student loans.

The aging of the student loan portfolio by classes of loans as of June 30 is presented as follows:

Classes Of Loans	2017						Total
	Not in Repayment	Current	Less Than 240 Days Past Due	Greater Than 240 Days, but Less Than 2 Years Past Due	Greater Than 2 Years, Less Than 5 Years Past Due	Greater Than 5 Years Past Due	
Federal Perkins Loans	\$ 289,574	\$ 362,898	\$ 73,512	\$ 36,596	\$ 56,609	\$ 123,155	\$ 942,344
Institutional Loans	376,142	199,777	51,378	35,858	87,972	132,875	884,002
	<u>\$ 665,716</u>	<u>\$ 562,675</u>	<u>\$ 124,890</u>	<u>\$ 72,454</u>	<u>\$ 144,581</u>	<u>\$ 256,030</u>	<u>\$ 1,826,346</u>
As a Percentage of Total Loan Portfolio	36.45%	30.81%	6.84%	3.97%	7.92%	14.02%	100.00%

Classes Of Loans	2016						Total
	Not in Repayment	Current	Less Than 240 Days Past Due	Greater Than 240 Days, but Less Than 2 Years Past Due	Greater Than 2 Years, Less Than 5 Years Past Due	Greater Than 5 Years Past Due	
Federal Perkins Loans	\$ 508,336	\$ 349,606	\$ 70,820	\$ 37,326	\$ 42,964	\$ 116,416	\$ 1,125,468
Institutional Loans	347,505	231,640	39,243	71,388	83,936	102,013	875,725
	<u>\$ 855,841</u>	<u>\$ 581,246</u>	<u>\$ 110,063</u>	<u>\$ 108,714</u>	<u>\$ 126,900</u>	<u>\$ 218,429</u>	<u>\$ 2,001,193</u>
As a Percentage of Total Loan Portfolio	42.77%	29.04%	5.50%	5.43%	6.34%	10.91%	100.00%

The allowance for doubtful accounts on student loans in aggregate is \$129,000 for the years ended June 30, 2017 and 2016.

The allowance for doubtful accounts on loans by portfolio segment as of June 30 is presented as follows:

	2017		
	Federal Perkins Loans	Institutional Loans	Total
Less: Allowance for Loans Collectively Evaluated for Impairment	\$ 88,680	\$ 40,320	\$ 129,000
Loans Collectively Evaluated for Impairment	942,344	884,002	1,826,346
Student Loans Receivable, Net	<u>\$ 853,664</u>	<u>\$ 843,682</u>	<u>\$ 1,697,346</u>
Allowance as a Percentage of Loans Collectively Evaluated for Impairment	9.41%	4.56%	7.06%

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 STUDENT LOANS RECEIVABLE (CONTINUED)

	2016		
	Federal Perkins Loans	Institutional Loans	Total
Less: Allowance for Loans Collectively Evaluated for Impairment	\$ 88,680	\$ 40,320	\$ 129,000
Loans Collectively Evaluated for Impairment	1,125,468	875,725	2,001,193
Student Loans Receivable, Net	\$ 1,036,788	\$ 835,405	\$ 1,872,193
Allowance as a Percentage of Loans Collectively Evaluated for Impairment	7.88%	4.60%	6.45%

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30:

	2017		
	Federal Perkins Loans	Institutional Loans	Total
Performing	\$ 725,984	\$ 627,296	\$ 1,353,280
Nonperforming	216,360	256,706	473,066
Total	\$ 942,344	\$ 884,002	\$ 1,826,346

	2016		
	Federal Perkins Loans	Institutional Loans	Total
Performing	\$ 928,761	\$ 618,388	\$ 1,547,149
Nonperforming	196,707	257,337	454,044
Total	\$ 1,125,468	\$ 875,725	\$ 2,001,193

Performing loans are those which are less than 240 days past due. Nonperforming loans are those which are greater than or equal to 240 days past due.

For student loans, the credit quality indicator is performance determined by delinquency status and, for Federal Perkins Loans, origination and servicing of the loan. Delinquency status is updated monthly by the College's loan servicer. Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible. The College is not aware of any material amount of loans not properly originated or serviced under Department of Education regulations.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 INVESTMENTS

The investments include funds traditionally considered the endowment of the College (including quasi-endowment) as well as other assets. As of June 30, the carrying value of investments are as follows:

	<u>2017</u>	<u>2016</u>
Endowment:		
Money Market Funds	\$ 8,563,088	\$ 2,112,261
Common Stock	257,648	257,648
Bond Funds	12,235,921	11,324,079
Cash Value of Life Insurance	3,318,926	3,246,636
Equity Securities	31,200,947	27,141,483
Real Estate Investment Trusts **	5,370,824	4,984,812
Private Equity **	2,363,367	3,200,738
Hedge Funds **	3,516,048	11,474,771
Natural Resource Funds **	1,289,030	982,576
Contracts and Miscellaneous	10,342	10,342
Trusts Held by Others *	3,734,907	3,462,164
Charitable Remainder Trusts ***	1,793,001	1,775,643
Total Endowment	<u>73,654,049</u>	<u>69,973,153</u>
Other:		
Stocks	37,984	36,944
Land Held for Resale, Farms, and City Real Estate	100,000	100,000
Cash Value of Life Insurance	475,754	457,177
Trusts Held by Others *	969,523	969,843
Other	5,124	5,124
Total Other	<u>1,588,385</u>	<u>1,569,088</u>
 Total	 <u><u>\$ 75,242,434</u></u>	 <u><u>\$ 71,542,241</u></u>

* Trusts held by others are assets neither in the possession of nor under control of the College, but held and administered by outside fiscal agents, with the College deriving income from such funds. The value of such assets is supported by annual trust statements and consists of publicly traded stocks and bonds.

** The College has the ability to liquidate these investments periodically in accordance with the provisions of the respective investment fund agreements. Under terms of certain limited partnership agreements, the College is obligated periodically to advance additional funding for private equity and real estate investments. As of June 30, 2017, the College had commitments of approximately \$800,000 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The College anticipates that it will maintain sufficient liquidity in its investment portfolio to cover such calls.

*** Assets held under charitable remainder trusts primarily consist of equity securities and bonds.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 INVESTMENTS (CONTINUED)

The investments of the College are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to the changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment balances and the amounts reported in the financial statements.

Investment return consists of the following for the years ended June 30:

	2017	2016
Net Realized Gains on Investments	\$ 1,786,097	\$ 640,621
Net Unrealized Gains (Losses) on Investments	5,525,362	(2,796,400)
Dividend and Interest Income	204,958	189,555
Total Investment Gains (Losses)	<u>\$ 7,516,417</u>	<u>\$ (1,966,224)</u>
	2017	2016
Investment Income - Operating	\$ 5,685,327	\$ 3,241,682
Investment Gain (Loss) - Non-Operating	1,831,090	(5,207,906)
Total Investment Income (Loss)	<u>\$ 7,516,417</u>	<u>\$ (1,966,224)</u>

NOTE 5 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30 is as follows:

	2017	2016
Land and Real Estate Improvements	\$ 3,573,981	\$ 3,541,215
Buildings	109,954,935	109,777,613
Equipment and Library Books	15,978,286	15,269,436
Rental Properties	3,129,663	2,999,492
Construction in Progress	4,573,479	1,196,692
	<u>137,210,344</u>	<u>132,784,448</u>
Less: Accumulated Depreciation	58,657,483	54,409,028
Total	<u>\$ 78,552,861</u>	<u>\$ 78,375,420</u>

NOTE 6 ACCRUED SEVERANCE PLAN LIABILITY

The College operated an unfunded severance arrangement that covered full-time faculty and exempt status salaried administrative personnel who began service prior to April 14, 1991. To be eligible, the employee had to complete at least 15 years of service and have accumulated at least 75 "points" (a combination of age and years of service). The arrangement was modified in 2012, as a part of a phase-out of the plan, ultimately, to provide a benefit equal to 85% of the participant's final year's compensation in a lump-sum payment for those who attained a minimum age of 60 prior to September 1, 2012. The arrangement also added health care benefits, which will be provided for the lesser of five years or Medicare eligibility and life insurance, which will be provided for up to five years.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 6 ACCRUED SEVERANCE PLAN LIABILITY (CONTINUED)

In May 2013, an attorney, on behalf of a group of faculty and staff, requested an "Advisory Opinion" from the US Department of Labor, Employee Benefits Security Administration, Office of Regulations and Interpretations regarding the August 13, 2012 amendment made to the Plan.

The College and the group of faculty and staff reached agreement on a settlement in April 2016 and their attorney withdrew his request for an "Advisory Opinion" from The Department of Labor. As a result of the settlement, the College realized a gain of approximately \$1.25 million in fiscal 2016 which is reported in the nonoperating section of the statement of activities.

NOTE 7 LONG-TERM DEBT

Long-term debt as of June 30 is summarized as follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Iowa Higher Education Loan Authority (IHELA) - Series 2013. Interest is payable semi-annually on April 1 and October 1 through maturity on October 1, 2023, at fixed rate of 2.99%. The College is required to maintain certain financial ratios including a liquidity ratio and a debt service ratio as well as nonfinancial covenants.	\$ 19,265,000	\$ 19,965,000
US Bank, NA - Original loan of \$4,383,348 with principal payments semi-annually on July 31 and January 31. Interest is payable monthly at a floating rate based on London Interbank Offered Rate (LIBOR) plus 150 basis points. The loan is collateralized by contributions receivable related to various campus projects. The College is required to maintain certain nonfinancial and financial covenants. Loan matures July 31, 2019.	2,834,070	4,383,348
JPMorgan Chase Bank, NA - Original loan of \$600,000 with principal payments due in monthly installments of \$12,500 starting January 31, 2013 with final payment on or before December 31, 2016. Interest is payable monthly at a floating rate based on LIBOR plus 190 basis points. The loan is collateralized by contributions receivable related to the Garner President's House property. The College is required to maintain certain financial ratios including cash, investments and pledges to debt ratio and a debt service ratio as well as nonfinancial covenants.	-	62,500
Other	54,502	74,907
Subtotal:	22,153,572	24,485,755
Less: Unamortized debt issuance costs	(348,214)	(285,218)
Total Long-Term Debt, Net	<u>\$ 21,805,358</u>	<u>\$ 24,200,537</u>

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 7 LONG-TERM DEBT (CONTINUED)

The following schedule includes the debt maturities.

<u>Year Ending June 30,</u>	IHELA Series 2013	Other	Total
2018	\$ 900,000	\$ 1,301,879	\$ 2,201,879
2019	900,000	1,278,206	2,178,206
2020	650,000	308,487	958,487
2021	670,000	-	670,000
2022	695,000	-	695,000
2023-2027	15,450,000	-	15,450,000
Total	<u>\$ 19,265,000</u>	<u>\$ 2,888,572</u>	<u>\$ 22,153,572</u>

The College has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs asset to zero and decreased the debt liability by \$285,218 as of July 1, 2016. The adoption of the standard had no effect on previously reported net assets.

NOTE 8 RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

As of June 30, the College's net assets with donor restrictions were allocated as follows:

	<u>2017</u>	<u>2016</u>
Donor Restricted Net Assets Not Invested in Perpetuity		
Instruction and Other Departmental Support	\$ 2,261,047	\$ 3,061,716
Accumulated Earnings on Endowment Funds	7,196,033	6,196,296
Acquisition of Buildings and Equipment	15,349,213	9,955,215
Life Income, Annuities, and Cash Surrender Value of Life Insurance Policies	351,204	336,101
Student Loan Funds	1,782,018	1,708,208
Underwater Endowment	(6,627,135)	(7,277,569)
Total	<u>\$ 20,312,380</u>	<u>\$ 13,979,967</u>

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8 RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)

	<u>2017</u>	<u>2016</u>
Donor Restricted Net Assets Invested in Perpetuity, the Income From Which is Expended For:		
Scholarships	\$ 29,098,331	\$ 28,613,278
Unrestricted	10,861,501	10,860,873
Professorships	16,461,913	16,068,753
Library	2,081,174	1,352,118
Other Instructional Support	8,486,121	8,278,662
Student Loan Funds	969,523	969,843
Annuity, Life Income and Cash Surrender Value of Life Insurance Policies, and Restricted Pledges	<u>3,138,755</u>	<u>3,142,730</u>
Total	<u>\$ 71,097,318</u>	<u>\$ 69,286,257</u>

Net assets during the years ended June 30 were released from donor restrictions for the following purposes:

	<u>2017</u>	<u>2016</u>
Scholarships and Other Endowment Funds	\$ 2,791,762	\$ 1,422,124
Instruction and Other Departmental Support	4,601,293	2,994,353
Capital Projects	<u>3,400,123</u>	<u>5,539,947</u>
Total	<u>\$ 10,793,178</u>	<u>\$ 9,956,424</u>

NOTE 9 LIABILITY TO LIFE TENANTS UNDER CHARITABLE REMAINDER TRUSTS AND ANNUITIES PAYABLE

The College has several charitable remainder trust agreements whereby the College is required to pay certain amounts to the income beneficiary during their lifetime. The present value of these payments discounted using a rate of 6% is \$888,625 and \$904,950 as of June 30, 2017 and 2016, respectively. In addition, the College has received amounts from various individuals under annuity agreements that require the College to pay to the donors varying amounts during their lifetime. The present value of these payments using specified discount rate ranging from 3% to 14% totaled \$843,614 and \$925,863 as of June 30, 2017 and 2016, respectively.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 10 ALLOCATION OF FUNCTIONAL EXPENSES

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The College reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS).

	2017						
	Instruction	Academic Support and Research	Student Services	Institutional Support	Institutional Advancement	Auxiliary Enterprises	Total
Salaries	\$ 7,832,296	\$ 1,182,520	\$ 3,529,758	\$ 1,706,259	\$ 1,452,590	\$ 453,863	\$ 16,157,286
Benefits	2,036,522	134,612	1,029,548	234,398	500,186	53,953	3,989,219
Fees For Outside Services	214,811	-	216,460	222,895	62,862	2,246	719,274
Advertising and Promotion	1,364	172,239	556,162	56,514	127,517	-	913,796
Departmental Operations	89,459	24,151	558,843	272,525	146,868	184,413	1,276,259
Software	4,818	36,598	76,393	342,473	45,544	11,972	517,798
Contract Services	479,639	102,449	241,779	38,792	49,256	538,288	1,450,203
Dining	-	500	120,529	-	-	2,935,979	3,057,008
Utilities	399,376	83,389	196,799	37,077	16,184	522,327	1,255,152
Travel and Conferences	162,003	13,606	711,037	127,514	192,759	84,540	1,291,459
Off Campus Class Trips	469,492	-	-	-	-	-	469,492
Interest	-	-	-	-	-	718,450	718,450
Depreciation	1,474,129	312,727	737,532	95,310	60,574	1,921,069	4,601,341
Insurance	161	-	-	496,782	-	-	496,943
Miscellaneous	522,853	572,632	635,645	234,861	31,339	34,957	2,032,287
	<u>\$ 13,686,923</u>	<u>\$ 2,635,423</u>	<u>\$ 8,610,485</u>	<u>\$ 3,865,400</u>	<u>\$ 2,685,679</u>	<u>\$ 7,462,057</u>	<u>\$ 38,945,967</u>

NOTE 11 ASSET RETIREMENT OBLIGATION

Under current accounting standards guidance, the College must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional. The fair value of a liability for a legal obligation associated with an asset retirement is required to be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 11 ASSET RETIREMENT OBLIGATION (CONTINUED)

Substantially all of the College's conditional asset retirement obligation relates to the estimated cost to remove certain materials from campus facilities. The future value of the asset retirement obligation as of June 30, 2017 is estimated to be approximately \$.89 million. The liability was estimated using an inflation rate of 4%. Because accounting standards required retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 5%.

Changes in the accrual for asset retirement obligation during the years ended June 30 are as follows:

	2017	2016
Balance - Beginning	\$ 428,811	\$ 486,260
Adjustment of Asset Retirement Liability	12,819	(48,995)
Settlement of Asset Retirement Obligation	(24,004)	(8,454)
Balance - Ending	<u>\$ 417,626</u>	<u>\$ 428,811</u>

NOTE 12 ENDOWMENT FUND AND NET ASSET CLASSIFICATIONS

The College's Endowment Fund consists of various donor-restricted endowment funds and funds designated as quasi-endowment by the board of trustees. Net assets associated with endowment funds, including funds designated to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The College has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2008 Iowa legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College retains in perpetuity (a) the original value and subsequent gifts to the endowment, and (b) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, (c) the original net present value of restricted annuities, and (d) subsequent changes in amounts due under restricted annuities. Donor-restricted amounts not retained in perpetuity are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the state of Iowa in its enacted version of the UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the College and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the College; and (7) the investment policies of the College.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 12 ENDOWMENT FUND AND NET ASSET CLASSIFICATIONS (CONTINUED)

The College has adopted investment and spending policies for its Endowment Fund. The objective of these policies is to provide the College a predictable funding stream for its programs while achieving an investment return greater than the combination of the current spending formula and the current rate of inflation in order to protect the purchasing power of the Endowment Fund. The College, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long term of at least 7.5%; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the College expects to maintain appropriate diversification among equity, fixed income, and alternative investment allocations. The purpose is to moderate the overall investment risk of the Endowment Fund.

The board of trustees of the College may appropriate for expenditure or accumulate so much of the Endowment Fund as the College determines is prudent for the uses, benefits, purposes, and duration for which the Endowment Fund is established. The amount appropriated, per the spending policy, is a board-approved percentage applied to the average fair value of the endowment fund assets during the 12 quarters ending December 31 of the prior calendar year. The board-approved spending percentage was 8.6% and 5% for the fiscal years ended June 30, 2017 and 2016.

Endowment net assets as of June 30 were as follows:

	2017		
	Without	With	Total
	Donor Restrictions	Donor Restrictions	
Donor-Restricted Endowment Funds	\$ -	\$ 71,058,017	\$ 71,058,017
Board-Designated Quasi-Endowment Funds	3,443,891	-	3,443,891
Total Endowment Funds	\$ 3,443,891	\$ 71,058,017	\$ 74,501,908
	2016		
	Without	With	Total
	Donor Restrictions	Donor Restrictions	
Donor-Restricted Endowment Funds	\$ -	\$ 67,580,593	\$ 67,580,593
Board-Designated Quasi-Endowment Funds	3,345,541	-	3,345,541
Total Endowment Funds	\$ 3,345,541	\$ 67,580,593	\$ 70,926,134

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 12 ENDOWMENT FUND AND NET ASSET CLASSIFICATIONS (CONTINUED)

The changes in endowment net assets for the years ended June 30 were as follows:

	2017		
	Without	With	Total
	Donor Restrictions	Donor Restrictions	
Endowment Net Assets - Beginning of Year	\$ 3,345,541	\$ 67,580,593	\$ 70,926,134
Investment Return:			
Investment Income Allocated to Operations	236,046	5,244,323	5,480,369
Net Appreciation (Depreciation)			
(Realized and Unrealized)	30,867	1,781,645	1,812,512
Total Investment Return	<u>3,612,454</u>	<u>74,606,561</u>	<u>78,219,015</u>
Contributions	-	1,821,824	1,821,824
Appropriation of Endowment Funds for			
Expenditure	(236,046)	(5,244,323)	(5,480,369)
Other Changes	67,483	(126,045)	(58,562)
Endowment Net Assets - End of Year	<u>\$ 3,443,891</u>	<u>\$ 71,058,017</u>	<u>\$ 74,501,908</u>
	2016		
	Endowment Fund	Endowment Fund	Total
	With out Donor	With Donor	
	Restrictions	Restrictions	
Endowment Net Assets - Beginning of Year	\$ 4,456,180	\$ 70,060,827	\$ 74,517,007
Investment Return:			
Investment Income Allocated to Operations	(129,206)	3,181,333	3,052,127
Net Appreciation (Depreciation)			
(Realized and Unrealized)	28,761	(5,255,618)	(5,226,857)
Total Investment Return	<u>4,355,735</u>	<u>67,986,542</u>	<u>72,342,277</u>
Contributions	-	2,662,491	2,662,491
Appropriation of Endowment Funds for			
Expenditure	(1,010,194)	(2,952,030)	(3,962,224)
Other Changes	-	(116,410)	(116,410)
Endowment Net Assets - End of Year	<u>\$ 3,345,541</u>	<u>\$ 67,580,593</u>	<u>\$ 70,926,134</u>

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2017, funds with original gift values of 41,486,030, and fair values of \$34,858,895, and deficiencies of \$6,627,135 were reported in net assets with donor restrictions. As of June 30, 2016, funds with original gift values of \$46,411,031, and fair values of \$39,133,462, and deficiencies of \$7,277,569 were reported in net assets with donor restriction. This amount is reported in net assets with donor restrictions. These deficiencies, which the College believes are temporary, resulted from unfavorable market fluctuations. The board determined that continued appropriation during fiscal years ended June 30, 2017 and 2016 for certain programs was prudent.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements. The fair value hierarchy set forth in the Topic is as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Investments measured using the practical expedient, that do not have any significant redemption restrictions, lockup periods, gates or other characteristics that would cause report and liquidation date net asset value (NAV) to be significantly different, if redemption were requested at the report date.

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgement, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investments

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed, and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation including alternative investments, securities are classified within Level 3 of the valuation hierarchy. Level 3 securities include investments in limited partnerships, life insurance policies, real estate, land, and mineral rights. Investments in limited partnerships are fund-of-funds that take custody of the assets and use partnership accounting to determine the unit value of each member's interest in the partnership. Annual audits are performed each year on the partnerships. The College obtains the fair value from the fund managers. The fund managers use various models, comparisons, and assumptions to estimate fair value. Consideration is given to the type of investment, risks, marketability, restrictions on dispositions and quotations from other market participants. Life insurance policies are valued at cash surrender values determined by the life insurance companies. The value of real estate, land, and mineral rights is determined through third-party appraisals. The value of charitable lead/remainder unitrusts is derived from the underlying investments of the unitrusts. The value of those investments is determined in the same manner as investments described above. Future expected cash flows are discounted using a risk-adjusted discount rate.

The College uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as practical expedient are not classified in the fair value hierarchy.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables summarize assets measured at fair value on a recurring basis as of June 30, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

2017					
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Assets:					
Investments:					
Common Stocks:					
Miscellaneous	\$ 257,648	\$ -	\$ -	\$ 257,648	\$ -
Equity Mutual Funds:					
International Funds	15,048,975	15,048,975	-	-	-
Multi Strategy Funds	16,151,972	16,151,972	-	-	-
Fixed Income Mutual Funds:					
Total Return Funds	12,235,921	12,235,921	-	-	-
Real Estate Investment Trust	5,370,824	5,370,824	-	-	-
Natural Resource Funds	1,289,030	1,072,448	-	-	216,582
Hedge Funds	3,516,048	-	-	-	3,516,048
Private Equity	2,363,367	-	-	-	2,363,367
Funds Held in Trust by Others	4,704,430	-	-	4,704,430	-
Charitable Remainder Trusts	1,793,001	1,793,001	-	-	-
Other	53,450	-	-	53,450	-
Total	<u>\$ 62,784,666</u>	<u>\$ 51,673,141</u>	<u>\$ -</u>	<u>\$ 5,015,528</u>	<u>\$ 6,095,997</u>
2016					
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Assets:					
Investments:					
Common Stocks:					
Miscellaneous	\$ 257,648	\$ -	\$ -	\$ 257,648	\$ -
Equity Mutual Funds:					
International Funds	11,426,159	11,426,159	-	-	-
Multi Strategy Funds	15,715,324	15,715,324	-	-	-
Fixed Income Mutual Funds:					
Total Return Funds	11,324,079	11,324,079	-	-	-
Real Estate Investment Trust	4,984,812	4,984,812	-	-	-
Natural Resource Funds	982,576	667,129	-	-	315,447
Hedge Funds	11,474,771	-	-	-	11,474,771
Private Equity	3,200,738	-	-	-	3,200,738
Funds Held in Trust by Others	4,432,007	-	-	4,432,007	-
Charitable Remainder Trusts	1,775,643	1,775,643	-	-	-
Other	52,410	-	-	52,410	-
Total	<u>\$ 65,626,167</u>	<u>\$ 45,893,146</u>	<u>\$ -</u>	<u>\$ 4,742,065</u>	<u>\$ 14,990,956</u>

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present additional information about assets measured at fair value on a recurring basis for which the College has utilized Level 3 inputs to determine fair value.

	2017			
	Common Stocks	Funds Held in Trust	Other	Total
	Miscellaneous	by Others		
Balance - Beginning	\$ 257,648	\$ 4,432,007	\$ 52,410	\$ 4,742,065
Total Gains or Losses (Realized/Unrealized) Included in Change in Net Assets	-	272,423	1,040	273,463
Purchases	-	-	-	-
Sales	-	-	-	-
Balance - Ending	<u>\$ 257,648</u>	<u>\$ 4,704,430</u>	<u>\$ 53,450</u>	<u>\$ 5,015,528</u>

	2016			
	Common Stocks	Funds Held in Trust	Other	Total
	Miscellaneous	by Others		
Balance - Beginning	\$ 217,398	\$ 4,695,797	\$ 50,800	\$ 4,963,995
Total Gains or Losses (Realized/Unrealized) Included in Change in Net Assets	40,250	(263,790)	1,610	(221,930)
Purchases	-	-	-	-
Sales	-	-	-	-
Balance - Ending	<u>\$ 257,648</u>	<u>\$ 4,432,007</u>	<u>\$ 52,410</u>	<u>\$ 4,742,065</u>

Gains and losses included in change in net assets for the period above are reported as realized and unrealized gains (losses) on investments.

The following table sets forth additional disclosure of the College's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30:

	Fair Value		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2017	2016			
Natural Resource Funds (A)	\$ 216,582	\$ 315,447	\$ 32,500	N/A	N/A
Hedge Funds:					
(B)	-	1,775,895	-	Monthly	5-50 days
(C)	1,589,997	7,892,011	-	Quarterly	35-100 days
(D)	1,876,804	1,729,803	-	Semi-Annual	95 days
(E)	49,247	77,062	-	N/A	N/A
Private Equity:					
(F)	1,100,347	1,394,416	142,000	N/A	N/A
(G)	346,642	571,162	324,639	N/A	N/A
(H)	267,055	401,349	180,000	N/A	N/A
(I)	292,469	366,247	-	N/A	N/A
(J)	39,968	98,511	109,999	N/A	N/A
(K)	316,886	369,053	33,750	N/A	N/A

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

- (A) The fund invests in a select group of investment funds in the natural resource sector, with an emphasis on depleting resources. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.
- (B) These funds allocate capital across several strategies. Those strategies include companies in the following industries: metals and mining, chemicals, paper and forest products, transportation, homebuilding, building materials and appliances, energy, autos, retail and leisure, and agriculture. The fair value of these hedge funds has been estimated using the net asset value per share of the investments.
- (C) These hedge funds invest primarily in equities, with both long and short positions, along with corporate credit and senior and secured debt. Some funds within this group focus on U.S. equities, while other funds have a global investment allocation. The fair value of these hedge funds has been estimated using the net asset value per share of the investments.
- (D) This fund seeks to create a diversified portfolio of high yield debt, bank loans, and special opportunities aimed at achieving attractive risk adjusted returns through rigorous bottom-up fundamental credit research. The fair value of this hedge fund has been estimated using the net asset value per share of the investments.
- (E) This fund is a multi-strategy fund of hedge funds that only invests in funds that manage equity-like instruments comprising of four strategies: relative value, event-driven, equity market-neutral, and hedged equity. Distributions are made to members in cash pro rata in proportion to their capital accounts. The fund has only five small funds remaining with minimal market value.
- (F) The limited partnership was created with the purpose of investing in the Master Fund which holds private equity and venture capital partnerships which invest in equity, equity-related, and debt securities. The limited partners have made commitments to classes of investments in the partnership which include Developed Markets-Private Equity (the PE Class), Developed Markets-Venture Capital (the VC Class), and Emerging Markets-Private Equity and Venture Capital (the EM Class), (collectively, the Classes and, individually, a Class). These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's partner capital balance as provided by each investment's fund administrator.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

- (G) This limited partnership was formed for the purpose of investing substantially all of its assets in the Offshore Holdings Partnership. The Offshore Holdings Partnership was formed for the purpose of investing in pooled investment vehicles purchased from the existing owners of such pooled vehicles and not from the issuers of such investments or transactions structured to share many of the characteristics and economics of such purchases (Secondary Investments). The Secondary Investments are generally held by Private Equity Opportunities (PEO). PEO may receive distributions-in-kind from the Secondary Investments representing securities of the Secondary Investments' underlying portfolio companies (Security Investments and together with Secondary Investments, Portfolio Investments). PEO may make investments directly or indirectly related to the Secondary Investments, including underlying portfolio companies owned by Secondary Investments, swaps, options, and forward currency contracts. The Offshore Holdings Partnership may also make investments in swaps, options, forward currency contracts, and other alternative transactions. The Offshore Holdings Partnership is permitted to invest both domestically and internationally across all sectors of the private equity market directly and through PEO. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.
- (H) The fund invests in following private equity industry sectors: Buyout, Venture Capital, and Special Situations. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.
- (I) The fund invests in securities in secondary market transactions primarily in leveraged buyout, growth equity, mezzanine, and venture capital investment funds. In addition, the fund may make primary investments in Investment Partnerships, direct investments in companies alongside Investment Partnerships, and Secondary Investments in companies. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

- (J) This fund invests primarily in secondary transactions in privately offered direct investment funds and portfolio companies established by a select number of experienced and well-established sponsors. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.
- (K) The fund invests in a select group of private equity funds in the venture capital, buyout, and capital restructuring sectors. These funds are valued on a regular basis; however, these investments cannot be redeemed during the life of the partnership. Distributions will be received as the underlying funds of the investment are liquidated over time. The fair values of the investments in this category have been estimated using the College's partner capital balance as provided by each investment's fund administrator. The capital balance is based on their percentage ownership of the overall fund.

NOTE 14 COMMITMENTS AND CONTINGENCIES

The College is involved in various legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by various regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management believes that the resolution of these pending matters will not have a materially adverse effect on the College's financial statements.

The College has entered into various contracts for science building improvements and other infrastructure improvements. As of June 30, 2017, the remaining commitment on these contracts totaled approximately \$19,845,000. The College's borrowing capacity is \$20,000,000 of which \$112,000 has been drawn in the form of issuance costs.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 15 AVAILABLE RESOURCES AND LIQUIDITY

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The College has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit. See note 14 for information about the College's bonds that are intended for the construction of the new science center.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, the College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the College's cash and shows positive cash generated by operations for fiscal years 2016 and 2017.

As of June 30, 2017, the following tables show the total financial assets held by the College and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial Assets:	<u>2017</u>
Cash and Cash Equivalents	\$ 8,907,482
Accounts Receivable, Net	399,829
Contributions Receivable, Net	24,420,676
Student Loans Receivables, Net	1,697,346
Investments Convertible to Cash in the Next 12 Months	62,094,458
Other Long Term Assets	92,507,502
Total	<u>\$ 190,027,293</u>

Financial Assets Available to Meet General Expenditures Over the Next 12 Months:	<u>2017</u>
Cash and Cash Equivalents	\$ 8,907,482
Accounts Receivable, Net	399,829
Current Portion of Contributions For General Expenditures	5,455,034
Endowment Payout For Use Over the Next 12 Months	3,190,033
Investments Not Encumbered by Donor or Board Restrictions	37,985
Total	<u>\$ 17,990,363</u>