

CORNELL COLLEGE
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

**CORNELL COLLEGE
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YEARS ENDED JUNE 30, 2018 AND 2017**

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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, 2018 and 2017, 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.

Board of Trustees
Cornell College

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, 2018 and 2017, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 27, 2018

**CORNELL COLLEGE
BALANCE SHEETS
JUNE 30, 2018 AND 2017**

ASSETS	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 9,231,214	\$ 8,907,482
Accounts Receivable, Less Allowance for Doubtful Accounts of \$391,201 and \$385,886 in 2018 and 2017, Respectively	321,779	399,829
Inventories and Prepaid Expenses	879,502	806,665
Contributions Receivable, Net	21,738,013	24,420,676
Student Loans Receivable, Net	1,627,373	1,697,346
Investments	75,809,480	75,242,434
Property, Plant, and Equipment, Net	<u>93,224,372</u>	<u>78,552,861</u>
Total Assets	<u><u>\$ 202,831,733</u></u>	<u><u>\$ 190,027,293</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable, Accrued Expenses, and Deposits	\$ 4,697,762	\$ 2,997,015
Student Tuition Paid in Advance	197,414	193,703
Contract Advances	2,967,248	3,244,396
Asset Retirement Obligation	431,350	417,626
Net Long-Term Debt	29,219,886	21,805,358
Life-Income Payable	2,064,483	1,732,239
Due to U.S. Government, Refundable Loan Program	<u>483,660</u>	<u>621,706</u>
Total Liabilities	40,061,803	31,012,043
NET ASSETS		
Without Donor Restrictions:		
Undesignated	(3,719,589)	7,414,158
Investment in Property, Plant, and Equipment	64,004,486	56,747,503
Board-Designated Endowment	<u>3,712,910</u>	<u>3,443,891</u>
Total Without Donor Restrictions	63,997,807	67,605,552
With Donor Restrictions:		
Perpetual in Nature	74,065,451	71,097,318
Purpose Restrictions	11,379,021	11,239,098
Time Restricted for Future Periods	20,091,791	15,700,417
Underwater Endowments	<u>(6,764,140)</u>	<u>(6,627,135)</u>
Total With Donor Restrictions	<u>98,772,123</u>	<u>91,409,698</u>
Total Net Assets	<u><u>162,769,930</u></u>	<u><u>159,015,250</u></u>
Total Liabilities and Net Assets	<u><u>\$ 202,831,733</u></u>	<u><u>\$ 190,027,293</u></u>

See accompanying Notes to Financial Statements.

**CORNELL COLLEGE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Tuition and Fees	\$ 39,607,534	\$ -	\$ 39,607,534
Less: Scholarships and Grants	(22,985,567)	-	(22,985,567)
Net Tuition and Fees	16,621,967	-	16,621,967
Contributions and Grants	4,166,277	1,440,088	5,606,365
Investment Income	179,907	69,700	249,607
Investment Income - Spending Rate	124,959	3,941,864	4,066,823
Other Revenues	1,153,181	130	1,153,311
Sales and Services of Auxiliary Enterprises	8,631,700	-	8,631,700
Total Revenues	30,877,991	5,451,782	36,329,773
Net Assets Released from Restrictions	5,391,638	(5,391,638)	-
Total Revenues	36,269,629	60,144	36,329,773
EXPENSES			
Instruction	13,283,743	-	13,283,743
Academic Support and Research	2,617,503	-	2,617,503
Student Services	8,893,836	-	8,893,836
Institutional Support	4,739,150	-	4,739,150
Institutional Advancement	2,802,089	-	2,802,089
Auxiliary Enterprises	7,479,161	-	7,479,161
Total Expenses	39,815,482	-	39,815,482
CHANGE IN OPERATING NET ASSETS	(3,545,853)	60,144	(3,485,709)
Investment Income Greater Than Spending Rate	78,114	55,747	133,861
Contributions	-	7,995,557	7,995,557
Loss on Pledge	-	(399,975)	(399,975)
Actuarial Adjustment on Life Income and Annuity Agreements	190,905	(381,152)	(190,247)
Change in Value of Perpetual Trust	-	32,104	32,104
Contract Loss	(330,911)	-	(330,911)
Loss on Disposition of Property, Plant, and Equipment	-	-	-
CHANGE IN NET ASSETS	(3,607,745)	7,362,425	3,754,680
Net Assets - Beginning of Year	67,605,552	91,409,698	159,015,250
NET ASSETS - END OF YEAR	<u>\$ 63,997,807</u>	<u>\$ 98,772,123</u>	<u>\$ 162,769,930</u>

See accompanying Notes to Financial Statements.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 37,595,934	\$ -	\$ 37,595,934
(21,225,630)	-	(21,225,630)
<u>16,370,304</u>	<u>-</u>	<u>16,370,304</u>
2,256,498	1,234,100	3,490,598
156,422	48,536	204,958
236,046	5,244,323	5,480,369
1,067,963	530	1,068,493
8,185,695	-	8,185,695
<u>28,272,928</u>	<u>6,527,489</u>	<u>34,800,417</u>
<u>10,793,178</u>	<u>(10,793,178)</u>	<u>-</u>
<u>39,066,106</u>	<u>(4,265,689)</u>	<u>34,800,417</u>
13,686,923	-	13,686,923
2,635,423	-	2,635,423
8,610,485	-	8,610,485
3,865,400	-	3,865,400
2,685,679	-	2,685,679
7,462,057	-	7,462,057
<u>38,945,967</u>	<u>-</u>	<u>38,945,967</u>
120,139	(4,265,689)	(4,145,550)
30,867	1,800,223	1,831,090
-	10,775,303	10,775,303
-	-	-
67,480	(166,043)	(98,563)
-	(320)	(320)
-	-	-
<u>(51,312)</u>	<u>-</u>	<u>(51,312)</u>
167,174	8,143,474	8,310,648
<u>67,438,378</u>	<u>83,266,224</u>	<u>150,704,602</u>
<u>\$ 67,605,552</u>	<u>\$ 91,409,698</u>	<u>\$ 159,015,250</u>

CORNELL COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 3,754,680	\$ 8,310,648
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	4,657,055	4,666,883
Change in Asset Retirement Obligation	13,724	(11,185)
Write-Off of Contribution Receivable	512,650	43,000
Actuarial Adjustment of Annuities and Life Income Payable	247,430	98,563
Change in Value of Perpetual Trust	(32,104)	320
Net Appreciation on Investments	(4,418,187)	(7,311,779)
Noncash Donations of Investments and Equipment	(913,689)	(1,116,603)
Contributions Restricted for Long-Term Investment and Property, Plant, and Equipment	(5,483,683)	(5,065,184)
Loss on Disposal of Property, Plant, and Equipment	-	51,312
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	78,050	115,870
(Increase) Decrease in Contributions Receivable	2,682,663	(1,815,988)
Increase in Inventory and Prepaid Expenses	(72,837)	(28,134)
Increase in Accounts Payable and Accrued Expenses	1,700,747	505,008
Increase in Other Liabilities	3,711	21,105
Net Cash Provided (Used) by Operating Activities	2,730,211	(1,536,164)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(100,223,069)	(39,805,471)
Proceeds from Sales and Maturities of Investments	105,020,003	44,533,340
Disbursements of Student Loans	(196,754)	(129,699)
Repayments of Student Loans	266,727	304,546
Purchase of Property and Equipment	(19,310,480)	(4,830,094)
Net Cash Provided (Used) by Investing Activities	(14,443,573)	72,622

See accompanying Notes to Financial Statements.

CORNELL COLLEGE
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Indebtedness	\$ 9,634,948	\$ -
Repayments of Principal on Indebtedness	(2,238,506)	(2,349,054)
Net Payments from Contract Advances	(277,148)	(295,399)
Cash Received from Contributions Restricted for Long-Term Investment and Property, Plant, and Equipment	4,971,033	5,022,184
Decrease in U.S. Government Grants Refundable, Net	(138,046)	(248,629)
Change in Annuities Payable	334,914	(98,488)
Investment Income Restricted for Life Income Agreements	27,900	122,168
Payments to Annuitants and Life Income Recipients	(278,000)	(220,817)
Net Cash Provided by Financing Activities	<u>12,037,094</u>	<u>1,931,965</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	323,732	468,423
Cash and Cash Equivalent - Beginning of Year	<u>8,907,482</u>	<u>8,439,059</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,231,214</u>	<u>\$ 8,907,482</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	<u>\$ 651,451</u>	<u>\$ 721,429</u>
Accounts Payable Incurred for Debt Issuance Costs	<u>\$ 328,331</u>	<u>\$ 111,667</u>
Accounts Payable Incurred for Purchase of Property and Equipment	<u>\$ 2,369,606</u>	<u>\$ 1,008,471</u>

See accompanying Notes to Financial Statements.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 42 states, two U.S. territories, and 17 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 95% of the class of 2017 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, 2018 AND 2017

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 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, 2018 AND 2017

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 \$7,153 and \$167,933 for the years ended June 30, 2018 and 2017, respectively.

Interest is charged on student accounts receivable that is 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, 2018 AND 2017**

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, 2018 and 2017, the College had an allowance of \$200,000.

Inventories

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

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 to 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, 2018 and 2017 was \$1,013,026 and \$1,021,348, 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, 2018 AND 2017

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, 2018 to December 31, 2018 and an aggregate stop-loss of 125% of total expected claims. Expected claims are estimated to be approximately \$1,760,000. For the years ended June 30, 2018 and 2017, the amount of health insurance expense, including administrative costs, and reinsurance costs, net of stop loss recoveries received or receivable, was \$2,493,339 and \$1,764,524, 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 10).

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, 2018 AND 2017

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, 2018 and 2017, 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 9 the College has presented the natural classification detail of expenses by function.

The College incurred fundraising costs of approximately \$1,850,000 and \$1,715,000 for the years ended June 30, 2018 and 2017, 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, 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 27, 2018, the date the financial statements were available to be issued.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Contributions Receivable Expected to be Collected in:		
Less than One Year	\$ 4,882,509	\$ 5,455,034
One Year to Five Years	17,496,813	17,703,631
Over Five Years	<u>1,068,603</u>	<u>3,199,775</u>
Gross Contributions Receivable	23,447,925	26,358,440
Less:		
Allowance for Uncollectibles	(200,000)	(200,000)
Unamortized Discount for Time Value of Money *	<u>(1,509,912)</u>	<u>(1,737,764)</u>
Net Contributions Receivable	<u>\$ 21,738,013</u>	<u>\$ 24,420,676</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>2018</u>	<u>2017</u>
Without Donor Restrictions	\$ 217,451	\$ 2,466,080
With Donor Restrictions	<u>21,520,562</u>	<u>21,954,596</u>
Total	<u>\$ 21,738,013</u>	<u>\$ 24,420,676</u>

Of total gross contributions receivable as of June 30, 2018 and 2017, approximately \$19,586,000 and \$22,935,000, respectively, are due from current and life members of the board of trustees of the College.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017, 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	2018						
	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	Total
Federal Perkins Loans	\$ 230,710	\$ 277,716	\$ 23,278	\$ 51,126	\$ 57,325	\$ 144,681	\$ 784,836
Institutional Loans	473,541	189,585	38,941	35,469	84,271	149,730	971,537
	<u>\$ 704,251</u>	<u>\$ 467,301</u>	<u>\$ 62,219</u>	<u>\$ 86,595</u>	<u>\$ 141,596</u>	<u>\$ 294,411</u>	<u>\$ 1,756,373</u>
As a Percentage of Total Loan Portfolio	40.10%	26.61%	3.54%	4.93%	8.06%	16.76%	100.00%

Classes of Loans	2017						
	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	Total
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%

The allowance for doubtful accounts on student loans in aggregate is \$129,000 for the years ended June 30, 2018 and 2017.

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

	2018		
	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	784,836	971,537	1,756,373
Student Loans Receivable, Net	<u>\$ 696,156</u>	<u>\$ 931,217</u>	<u>\$ 1,627,373</u>
Allowance as a Percentage of Loans Collectively Evaluated for Impairment	11.30%	4.15%	7.34%

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 STUDENT LOANS RECEIVABLE (CONTINUED)

	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	\$ 853,664	\$ 843,682	\$ 1,697,346
Allowance as a Percentage of Loans Collectively Evaluated for Impairment	9.41%	4.56%	7.06%

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

	2018		
	Federal Perkins Loans	Institutional Loans	Total
Performing	\$ 531,704	\$ 702,067	\$ 1,233,771
Nonperforming	253,132	269,470	522,602
Total	\$ 784,836	\$ 971,537	\$ 1,756,373

	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

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, 2018 AND 2017

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 is as follows:

	<u>2018</u>	<u>2017</u>
Endowment:		
Money Market Funds	\$ 1,379,879	\$ 8,563,088
Common Stock	257,648	257,648
Bond Funds	13,935,178	12,235,921
Cash Value of Life Insurance	3,243,691	3,318,926
Equity Securities	39,831,179	31,200,947
Real Estate Investment Trusts **	6,273,913	5,370,824
Private Equity **	1,981,869	2,363,367
Hedge Funds **	72,565	3,516,048
Natural Resource Funds **	1,721,012	1,289,030
Contracts and Miscellaneous	10,342	10,342
Trusts Held by Others *	3,853,484	3,734,907
Charitable Remainder Trusts ***	1,610,329	1,793,001
Total Endowment	<u>74,171,089</u>	<u>73,654,049</u>
Other:		
Stocks	38,953	37,984
Land Held for Resale, Farms, and City Real Estate	100,000	100,000
Cash Value of Life Insurance	492,687	475,754
Trusts Held by Others *	1,001,627	969,523
Other	5,124	5,124
Total Other	<u>1,638,391</u>	<u>1,588,385</u>
 Total	 <u>\$ 75,809,480</u>	 <u>\$ 75,242,434</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, 2018, the College had commitments of approximately \$785,000 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, 2018 AND 2017

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:

	2018	2017
Net Realized Gains on Investments	\$ 5,898,587	\$ 1,786,097
Net Unrealized Gains (Losses) on Investments	(1,693,045)	5,525,362
Dividend and Interest Income	244,749	204,958
Total Investment Gains (Losses)	\$ 4,450,291	\$ 7,516,417
	2018	2017
Investment Income - Operating	\$ 4,316,430	\$ 5,685,327
Investment Gain (Loss) - Nonoperating	133,861	1,831,090
Total Investment Income	\$ 4,450,291	\$ 7,516,417

NOTE 5 PROPERTY, PLANT, AND EQUIPMENT

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

	2018	2017
Land and Real Estate Improvements	\$ 3,584,834	\$ 3,573,981
Buildings	110,384,793	109,954,935
Equipment and Library Books	16,421,172	15,978,286
Rental Properties	3,132,299	3,129,663
Construction in Progress	23,037,332	4,573,479
	156,560,430	137,210,344
Less: Accumulated Depreciation	63,336,058	58,657,483
Total	\$ 93,224,372	\$ 78,552,861

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT

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

<u>Description</u>	<u>2018</u>	<u>2017</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.	\$ 18,365,000	\$ 19,265,000
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.	1,495,562	2,834,070
Iowa Higher Education Loan Authority (IHELA) - Series 2017. Interest is payable quarterly on August 1, November 1, February 1, and May 1, through maturity on May 1, 2024, at fixed rate of 2.95%. The College is required to maintain certain financial ratios including a liquidity ratio and a debt service coverage ratio as well as nonfinancial covenants.	9,634,948	-
Other	29,658	54,502
Subtotal	<u>29,525,168</u>	<u>22,153,572</u>
Less: Unamortized debt issuance costs	<u>(305,282)</u>	<u>(348,214)</u>
Total Long-Term Debt, Net	<u>\$ 29,219,886</u>	<u>\$ 21,805,358</u>

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

The following schedule includes the debt maturities.

<u>Year Ending June 30,</u>	IHELA Series 2013	IHELA Series 2017	Other	Total
2019	\$ 900,000	\$ 3,700,000	\$ 1,278,206	\$ 5,878,206
2020	650,000	2,500,000	247,014	3,397,014
2021	670,000	3,434,948	-	4,104,948
2022	695,000	-	-	695,000
2023	710,000	-	-	710,000
2023-2027	14,740,000	-	-	14,740,000
Total	<u>\$ 18,365,000</u>	<u>\$ 9,634,948</u>	<u>\$ 1,525,220</u>	<u>\$ 29,525,168</u>

NOTE 7 RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	<u>2018</u>	<u>2017</u>
Donor Restricted Net Assets Not Invested in Perpetuity:		
Instruction and Other Departmental Support	\$ 2,317,632	\$ 2,261,047
Accumulated Earnings on Endowment Funds	7,270,692	7,196,033
Acquisition of Buildings and Equipment	19,655,047	15,349,213
Life Income, Annuities, and Cash Surrender Value of Life Insurance Policies	436,744	351,204
Student Loan Funds	1,790,697	1,782,018
Underwater Endowment	(6,764,140)	(6,627,135)
Total	<u>\$ 24,706,672</u>	<u>\$ 20,312,380</u>

	<u>2018</u>	<u>2017</u>
Donor Restricted Net Assets Invested in Perpetuity, the Income From Which is Expended for:		
Scholarships	\$ 29,748,097	\$ 29,098,331
Unrestricted	10,941,773	10,861,501
Professorships	18,183,205	16,461,913
Library	2,087,685	2,081,174
Other Instructional Support	8,682,317	8,486,121
Student Loan Funds	1,001,627	969,523
Annuity, Life Income, and Cash Surrender Value of Life Insurance Policies, and Restricted Pledges	3,420,747	3,138,755
Total	<u>\$ 74,065,451</u>	<u>\$ 71,097,318</u>

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)

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

	2018	2017
Scholarships and Other Endowment Funds	\$ 2,105,317	\$ 2,791,762
Instruction and Other Departmental Support	3,135,170	4,601,293
Capital Projects	151,151	3,400,123
Total	<u>\$ 5,391,638</u>	<u>\$ 10,793,178</u>

NOTE 8 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 \$732,613 and \$888,625 as of June 30, 2018 and 2017, 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 \$1,331,870 and \$843,614 as of June 30, 2018 and 2017, respectively.

NOTE 9 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).

	2018						Total
	Instruction	Academic Support and Research	Student Services	Institutional Support	Institutional Advancement	Auxiliary Enterprises	
Salaries	\$ 7,475,147	\$ 1,171,328	\$ 3,779,769	\$ 1,890,151	\$ 1,453,227	\$ 426,960	\$ 16,196,582
Benefits	2,069,318	303,038	1,000,882	483,127	439,737	96,692	4,392,794
Fees For Outside Services	194,680	-	252,222	252,810	66,544	-	766,256
Advertising and Promotion	1,060	148,024	671,941	42,867	210,818	2,280	1,076,990
Departmental Operations	77,281	16,641	475,660	440,659	138,128	190,688	1,339,057
Software	6,371	18,856	71,555	313,882	66,269	6,900	483,833
Contract Services	411,725	26,644	349,113	235,381	56,782	476,243	1,555,888
Dining	-	-	118,262	-	-	3,036,029	3,154,291
Utilities	352,889	22,592	296,019	206,696	29,822	403,814	1,311,832
Travel and Conferences	180,385	14,518	655,644	128,032	215,716	86,225	1,280,520
Off Campus Class Trips	511,155	-	-	-	-	-	511,155
Interest	-	-	-	-	-	674,999	674,999
Depreciation	1,481,711	314,335	741,326	95,800	60,885	1,944,912	4,638,969
Insurance	161	-	-	505,570	-	-	505,731
Miscellaneous	521,860	581,527	481,443	144,175	64,161	133,419	1,926,585
Total	<u>\$ 13,283,743</u>	<u>\$ 2,617,503</u>	<u>\$ 8,893,836</u>	<u>\$ 4,739,150</u>	<u>\$ 2,802,089</u>	<u>\$ 7,479,161</u>	<u>\$ 39,815,482</u>

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 ALLOCATION OF FUNCTIONAL EXPENSES (CONTINUED)

	2017						Total
	Instruction	Academic Support and Research	Student Services	Institutional Support	Institutional Advancement	Auxiliary Enterprises	
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
Total	\$ 13,686,923	\$ 2,635,423	\$ 8,610,485	\$ 3,865,400	\$ 2,685,679	\$ 7,462,057	\$ 38,945,967

NOTE 10 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.

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, 2018 is estimated to be approximately \$920,000. 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:

	2018	2017
Balance - Beginning of Year	\$ 417,626	\$ 428,811
Adjustment of Asset Retirement Liability	18,822	12,819
Settlement of Asset Retirement Obligation	(5,098)	(24,004)
Balance - End of Year	\$ 431,350	\$ 417,626

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 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.

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 6.3% and 8.6% for the fiscal years ended June 30, 2018 and 2017, respectively.

**CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 11 ENDOWMENT FUND AND NET ASSET CLASSIFICATIONS (CONTINUED)

Endowment net assets as of June 30 were as follows:

	2018		
	Without	With	Total
	Donor Restrictions	Donor Restrictions	
Donor-Restricted Endowment Funds	\$ -	\$ 74,009,430	\$ 74,009,430
Board-Designated Quasi-Endowment Funds	3,712,910	-	3,712,910
Total Endowment Funds	<u>\$ 3,712,910</u>	<u>\$ 74,009,430</u>	<u>\$ 77,722,340</u>

	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	<u>\$ 3,443,891</u>	<u>\$ 71,058,017</u>	<u>\$ 74,501,908</u>

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

	2018		
	Without	With	Total
	Donor Restrictions	Donor Restrictions	
Endowment Net Assets - Beginning of Year	\$ 3,443,891	\$ 71,058,017	\$ 74,501,908
Investment Return:			
Investment Income Allocated to Operations	124,959	3,941,864	4,066,823
Net Appreciation (Depreciation)			
(Realized and Unrealized)	78,114	55,747	133,861
Total Investment Return	<u>3,646,964</u>	<u>75,055,628</u>	<u>78,702,592</u>
Contributions	-	3,280,372	3,280,372
Appropriation of Endowment Funds for			
Expenditure	(124,959)	(3,941,864)	(4,066,823)
Other Changes	190,905	(384,706)	(193,801)
Endowment Net Assets - End of Year	<u>\$ 3,712,910</u>	<u>\$ 74,009,430</u>	<u>\$ 77,722,340</u>

	2017		
	Endowment Fund With out Donor Restrictions	Endowment Fund With Donor Restrictions	Total
	Restrictions	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>

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 ENDOWMENT FUND AND NET ASSET CLASSIFICATIONS (CONTINUED)

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, 2018, funds with original gift values of \$42,194,636, and fair values of \$35,430,496, and deficiencies of \$6,764,140 were reported in net assets with donor restrictions. 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 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, 2018 and 2017 for certain programs was prudent.

NOTE 12 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, 2018 AND 2017

NOTE 12 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, 2018 AND 2017

NOTE 12 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.

	2018				
	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	10,264,880	10,264,880	-	-	-
Multi Strategy Funds	30,306,974	30,306,974	-	-	-
Fixed Income Mutual Funds:					
Total Return Funds	13,935,178	13,935,178	-	-	-
Real Estate Investment Trust	5,533,238	5,533,238	-	-	-
Natural Resource Funds	1,721,012	1,580,858	-	-	140,154
Hedge Funds	72,565	-	-	-	72,565
Private Equity	1,981,870	-	-	-	1,981,870
Funds Held in Trust by Others	4,855,111	-	-	4,855,111	-
Charitable Remainder Trusts	1,610,329	1,610,329	-	-	-
Other	54,418	-	-	54,418	-
Total	<u>\$ 70,593,223</u>	<u>\$ 63,231,457</u>	<u>\$ -</u>	<u>\$ 5,167,177</u>	<u>\$ 2,194,589</u>

	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>

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 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.

	2018			
	Common Stocks	Funds Held in Trust	Other	Total
	Miscellaneous	by Others		
Balance - Beginning of Year	\$ 257,648	\$ 4,704,430	\$ 53,450	\$ 5,015,528
Total Gains or Losses (Realized/Unrealized)				
Included in Change in Net Assets	-	150,681	968	151,649
Purchases	-	-	-	-
Sales	-	-	-	-
Balance - End of Year	\$ 257,648	\$ 4,855,111	\$ 54,418	\$ 5,167,177

	2017			
	Common Stocks	Funds Held in Trust	Other	Total
	Miscellaneous	by Others		
Balance - Beginning of Year	\$ 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 - End of Year	\$ 257,648	\$ 4,704,430	\$ 53,450	\$ 5,015,528

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

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

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
	2018	2017			
Natural Resource Funds (A)	\$ 140,154	\$ 216,582	\$ 32,500	N/A	N/A
Hedge Funds:					
(B)	38,873	1,589,997	-	Quarterly	35-100 days
(C)	-	1,876,804	-	Semi-Annual	95 days
(D)	33,692	49,247	-	N/A	N/A
Private Equity:					
(E)	903,495	1,100,347	116,000	N/A	N/A
(F)	336,163	346,642	325,321	N/A	N/A
(G)	171,065	267,055	180,000	N/A	N/A
(H)	220,960	292,469	-	N/A	N/A
(I)	31,507	39,968	109,999	N/A	N/A
(J)	318,680	316,886	21,250	N/A	N/A

- (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 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.
- (C) 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.
- (D) 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.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

- (E) 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.
- (F) 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.
- (G) 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.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

- (H) 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.
- (I) 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.
- (J) 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 13 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, 2018, the remaining commitment on these contracts totaled approximately \$7,478,000. The College's borrowing capacity is \$20,000,000 of which \$12,334,948 has been drawn through June 30, 2018.

CORNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 14 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 13 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 2017 and 2018.

As of June 30, 2017 and 2018, 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:	2018	2017
Cash and Cash Equivalents	\$ 9,231,214	\$ 8,907,482
Accounts Receivable, Net	321,779	399,829
Contributions Receivable, Net	21,738,013	24,420,676
Student Loans Receivables, Net	1,627,373	1,697,346
Investments Convertible to Cash in the Next 12 Months	64,079,123	62,094,458
Other Long-Term Assets	105,834,231	92,507,502
Total	\$ 202,831,733	\$ 190,027,293

Financial Assets Available to Meet General Expenditures Over the Next 12 Months:	2018	2018
Cash and Cash Equivalents	\$ 9,231,214	\$ 8,907,482
Accounts Receivable, Net	321,779	399,829
Current Portion of Contributions For General Expenditures	4,882,509	5,455,034
Endowment Payout For Use Over the Next 12 Months	3,257,078	3,190,033
Investments Not Encumbered by Donor or Board Restrictions	38,953	37,985
Total	\$ 17,731,533	\$ 17,990,363