COLGATE UNIVERSITY

Consolidated Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

COLGATE UNIVERSITY

Consolidated Financial Statements

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Trustees
Colgate University:

We have audited the accompanying consolidated financial statements of Colgate University, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Colgate University as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 11, 2017

COLGATE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(In thousands of dollars)

Assets		**2017**	**2016**
Cash and cash equivalents	$	29,814	31,939
Accounts receivable, net		1,513	1,700
Intermediate-term investments		151,292	61,371
Inventories		1,289	1,868
Prepaid expenses and other assets		1,364	1,091
Pledges receivable, net		3,984	5,278
Student loans receivable, net		1,890	2,316
Long-term investments		910,359	849,703
Land, buildings and equipment, net		411,275	388,096
Funds held in trust by others		14,379	14,830
Total assets	$	1,527,159	1,358,192
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	22,905	29,148
Deposits and deferred revenues		13,524	12,899
Annuities and deferred giving arrangements		15,837	16,058
Postretirement benefits		19,579	24,840
Federal student loan funds		2,000	2,237
Conditional asset retirement obligations		10,071	9,750
Long-term debt, net		342,221	239,433
Total liabilities		426,137	334,365
Net assets:			
Unrestricted		367,149	339,970
Temporarily restricted		346,686	309,993
Permanently restricted		387,187	373,864
Total net assets		1,101,022	1,023,827
Total liabilities and net assets	$	1,527,159	1,358,192

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2017
(with summarized information for the year ended June 30, 2016)

(In thousands of dollars)

	2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2016 Total
Operating revenues:					
Tuition and fees	$ 154,101	—	—	154,101	146,851
Less scholarships	(58,570)	—	—	(58,570)	(54,275)
Net tuition and fees	95,531	—	—	95,531	92,576
Sales and services of auxiliaries	32,485			32,485	31,250
Government grants and contributions	663	1,183	—	1,846	2,195
Private grants and contributions	7,532	7,263	—	14,795	14,349
Investment return designated for operations	13,581	35,433	—	49,014	46,232
Other	3,846	—	—	3,846	2,949
Net assets released from restrictions	43,721	(43,721)	—	—	—
Total operating revenues	197,359	158	—	197,517	189,551
Operating expenses:					
Instruction and research	74,424	—	—	74,424	72,928
Athletics	25,012	—	—	25,012	23,019
Academic support	17,797	—	—	17,797	18,100
Student services	16,042	—	—	16,042	15,395
Institutional support	30,535	—	—	30,535	29,433
Auxiliary operations	27,793	—	—	27,793	25,130
Total operating expenses	191,603	—	—	191,603	184,005
Increase in net assets from operating activities	5,756	158	—	5,914	5,546
Nonoperating activities:					
Investment return, less amounts designated for current operations	6,537	37,479	2,665	46,681	(71,602)
Grants and contributions	346	7,265	8,024	15,635	13,268
Change in value of split interest agreements	—	2,211	1,441	3,652	(1,175)
Postretirement benefits	5,261	—	—	5,261	(3,297)
Other	52	—	—	52	(482)
Net assets released from restrictions	8,787	(9,552)	765	—	—
Changes in donor intent and other reclassifications	440	(868)	428	—	—
Increase (decrease) in net assets from nonoperating activities	21,423	36,535	13,323	71,281	(63,288)
Change in net assets	27,179	36,693	13,323	77,195	(57,742)
Net assets:					
Beginning of year	339,970	309,993	373,864	1,023,827	1,081,569
End of year	$ 367,149	346,686	387,187	1,101,022	1,023,827

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2016

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 146,851	—	—	146,851
Less scholarships	(54,275)	—	—	(54,275)
Net tuition and fees	92,576	—	—	92,576
Sales and services of auxiliaries	31,250	—	—	31,250
Government grants and contributions	910	1,285	—	2,195
Private grants and contributions	6,645	7,704	—	14,349
Investment return designated for operations	12,818	33,414	—	46,232
Other	2,949	—	—	2,949
Net assets released from restrictions	40,752	(40,752)	—	—
Total operating revenues	187,900	1,651	—	189,551
Operating expenses:				
Instruction and research	72,928	—	—	72,928
Athletics	23,019	—	—	23,019
Academic support	18,100	—	—	18,100
Student services	15,395	—	—	15,395
Institutional support	29,433	—	—	29,433
Auxiliary operations	25,130	—	—	25,130
Total operating expenses	184,005	—	—	184,005
Increase in net assets from operating activities	3,895	1,651	—	5,546
Nonoperating activities:				
Investment return, less amounts designated for current operations	(18,744)	(48,884)	(3,974)	(71,602)
Grants and contributions	2,029	4,658	6,581	13,268
Change in value of split interest agreements	—	(1,111)	(64)	(1,175)
Postretirement benefits	(3,297)	—	—	(3,297)
Other	(482)	—	—	(482)
Net assets released from restrictions	17,465	(17,465)	—	—
Changes in donor intent and other reclassifications	3,803	(3,725)	(78)	—
Increase (decrease) in net assets from nonoperating activities	774	(66,527)	2,465	(63,288)
Change in net assets	4,669	(64,876)	2,465	(57,742)
Net assets:				
Beginning of year	335,301	374,869	371,399	1,081,569
End of year	$ 339,970	309,993	373,864	1,023,827

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands of dollars)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	77,195	(57,742)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation, amortization and accretion		13,557	12,753
Gain on extinguishment of debt		—	(889)
Receipt of contributed securities		(3,229)	(2,597)
Contributions for long-term investment		(13,649)	(12,262)
Realized and unrealized gain (loss) on investments		(90,461)	31,029
Changes in assets and liabilities that provide (use) cash:			
Accounts receivable, net		187	149
Inventories		579	331
Prepaid expenses and other assets		(273)	(216)
Pledges receivable, net		1,294	1,688
Funds held in trust by others		451	510
Accounts payable and accrued expenses		478	(1,675)
Deposits and deferred revenues		625	(1,093)
Annuities and deferred giving arrangements		(221)	200
Postretirement benefits		(5,261)	3,298
Conditional asset retirement obligations		(166)	(449)
Net cash used in operating activities		(18,894)	(26,965)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, net		(43,223)	(35,064)
Proceeds from student loan collections		453	531
Student loans issued		(27)	(203)
Purchases of investments		(195,953)	(178,613)
Proceeds from sales and maturities of investments		135,837	217,335
Sales of contributed securities		3,229	2,597
Net cash (used in) provided by investing activities		(99,684)	6,583
Cash flows from financing activities:			
Contributions for long-term investment		13,062	11,791
Change in federal student loan funds		(237)	(1,220)
Proceeds from issuance of long-term debt		107,594	49,670
Payments on long-term debt		(3,510)	(47,055)
Premium on long-term debt issuance		—	5,328
Bond issuance costs		(456)	(879)
Net cash provided by financing activities		116,453	17,635
Net decrease in cash and cash equivalents		(2,125)	(2,747)
Cash and cash equivalents at beginning of year		31,939	34,686
Cash and cash equivalents at end of year	$	29,814	31,939
Supplemental data:			
Noncash investing and financing activities – capital gifts in kind	$	587	471
(Decrease) increase in construction related payables		(6,721)	9,309
Interest paid		10,004	9,352

See accompanying notes to consolidated financial statements.

(1) Organization

Colgate University (the University) obtained its charter of incorporation in 1819 after being founded in 1817 by Baptist ministers in the central New York State Village of Hamilton. It was originally called the Baptist Education Society of the State of New York. Today, the University is a highly selective, independent, coeducational, residential, liberal arts institution set on a beautiful campus of more than 575 acres. It operates as an educational institution in accordance with the New York State Not-for-Profit Corporation Law under the direction of an independent Board of Trustees. With approximately 2,900 undergraduates from all regions of the United States and over 70 countries worldwide, the University is recognized as one of the leading national liberal arts colleges. Students enjoy small class sizes taught by a superb faculty and take advantage of the University's award winning curriculum, off-campus programs and numerous undergraduate research opportunities.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements of the University have been prepared on the accrual basis of accounting, and include the accounts of the University's wholly owned subsidiaries: Colgate Inn, LLC; Hamilton Initiative, LLC; Palace Theater, LLC; and Hamilton Theater, LLC. All significant intercompany transactions have been eliminated.

Net assets having similar characteristics have been classified into the following categories:

- *Permanently Restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently or until prudently appropriated by the Board of Trustees of the University in accordance with New York State law. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets to support program activities, principally financial aid and instruction.
- *Temporarily Restricted* – Net assets whose use by the University is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire with the passage of time. Realized and unrealized gains on permanently and temporarily restricted assets are reported as temporarily restricted net assets in accordance with New York State law.
- *Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Expenses are generally reported as decreases in unrestricted net assets.

Operating net assets released from restrictions include support for program activities such as financial aid and instruction. Contributions with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed restriction is satisfied.

(Continued)

Nonoperating net assets released from restrictions primarily represent amounts for facilities and equipment. Contributions restricted for the acquisition of land, buildings and equipment and specific programs are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the assets. Contributions received of a capital nature, that is, contributions to be used for facilities and equipment, or to be invested by the University to generate a return that will support operations, are included in nonoperating activities.

(b) Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments consisting of demand deposit accounts, money market funds, and overnight repurchase agreements with initial maturities of three months or less at the time of purchase. Certain balances meeting the definition of cash equivalents have been classified as intermediate and/or long-term investments as a result of the University's intent to segregate these funds from cash available for current operations.

(c) Fair Value

Fair value is defined by U.S. generally accepted accounting principles as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date incorporating a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the reporting entity's own assumptions about how market participants would value an asset based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last is unobservable, that may be used to measure fair value.

Except for investments reported at net asset value or its equivalent (NAV) as a practical expedient to estimate fair value, the following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets as of the measurement date. An active market is one in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Market price data is generally obtained from exchange or dealer markets.
- Level 2 – Pricing inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.
- Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The University utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability. Transfers between fair value categories are recognized at the end of the reporting period.

Fair value measurements of investment assets for which the measurements are based on NAV as provided by external managers in the absence of readily determinable fair values are categorized outside of the fair value hierarchy described above in the fair value information disclosed in note 4.

(d) Investments

Investments are reported at estimated fair value. The values of publicly traded equity and fixed income securities are based on quoted market prices and exchange rates, if applicable.

Nonmarketable securities, including alternative investments in hedge, private equity, and other similar funds, are valued using current estimates of fair value in the absence of readily determinable market prices. The University utilizes NAV reported by the managers of these funds as a practical expedient to fair value because the alternative investment funds (a) do not have readily determinable fair values and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. These estimates of fair value, because of the inherent uncertainty of valuations for these investments, may differ from the values that would have been used had ready markets existed.

Net appreciation or depreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation on those investments, is recognized in the consolidated statements of activities. Realized gains and losses on the sale of investments are generally determined on the specific identification method on the trade date.

(e) Inventories

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

(f) Student Loans Receivable

Student loans receivable are reported net of reserves for doubtful loans of $1,075 and $1,010 at June 30, 2017 and 2016, respectively. The reserve is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers still in school or in the grace period following graduation), that may not be collected.

(Continued)

(In thousands of dollars)

(g) Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost or, if donated, at fair value on the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

	Years
Land improvements	7–10
Buildings and improvements	20–50
Equipment and library books	3–10

Works of art, historical treasures, and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations at the date of acquisition or donation and are depreciated over 100 years. Depreciation and operation and maintenance costs are allocated to functional expenses based upon square footage and specific identification where appropriate.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is the difference between the carrying amount and the fair value of the assets.

(h) Funds Held in Trust by Others

Funds held in trust by others include charitable lead and/or charitable remainder trusts. For these trusts the University does not serve as trustee, nor has the power to appoint a trustee. Funds held in trust by others are valued at the net present value of the future distributions expected to be received over the term of the agreement.

(i) Annuities and Deferred Giving Arrangements

Planned gifts are separately invested in accordance with trust instruments that provide for income distributions to beneficiaries and final distributions of the remainder value to the University. When the University serves as trustee, or has the power to appoint the trustee, the trust assets are included in long-term investments. The expected payments to beneficiaries are recorded as a liability on the statements of financial position at their net present value. The fair value of planned giving investments was $28,195 and $27,305 at June 30, 2017 and 2016, respectively.

(j) Conditional Asset Retirement Obligations

The University accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded. Accretion expense amounted to $487 and $486 in 2017 and 2016, respectively.

(Continued)

(k) Revenue Recognition

Tuition revenue is recognized over the academic term to which it relates. Revenues from auxiliary enterprises are also recognized over the academic term with the exception of student debit card balances which are included in deferred revenue until utilized.

Contributions received, including unconditional promises to give, are recognized at fair value as revenue within the appropriate net asset category when the donors' commitments are received. Conditional contributions or promises are recorded when donor-imposed stipulations have been substantially met. Conversely, contributions made by the University, including unconditional promises to give, are recognized as expenses in the period in which the commitments are made.

(l) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues and expenses during the reporting period. Management's most significant use of estimates relate to investment valuations, postretirement benefits, allowances for receivables, and conditional asset retirement obligations. Due to uncertainties inherent in the estimates and assumptions, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the consolidated financial statements. Additionally, actual results could differ from these estimates.

(m) Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported in the consolidated statements of financial position and the consolidated statements of activities.

(n) Internal Revenue Code Status

The University, including Colgate Inn, LLC; Hamilton Initiative, LLC; Palace Theater, LLC; and Hamilton Theater, LLC, all single member limited liability corporations of which the University is the sole member, generally does not provide for income taxes since it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

The University recognizes the effect of income tax positions only if it is more likely than not that a tax position will be sustained by the relevant taxing authority. The University believes it has taken no significant uncertain tax positions.

(Continued)

(In thousands of dollars)

(3) Pledges Receivable

Unconditional pledges at June 30 are expected to be realized in the following years:

		2017	2016
Less than one year	$	2,335	3,180
One year to five years		1,910	2,876
Subtotal		4,245	6,056
Less present value discount (2.7% to 3.7%) and allowance		(261)	(778)
Total pledges receivable, net	$	3,984	5,278

At June 30, 2017 and 2016, the University had outstanding conditional pledges and bequests of approximately $148,286 and $155,890, respectively, which due to their conditional nature, are not recorded by the University.

(4) Long-Term Investments and Fair Value Measurements

Long-term investments by type consist of the following as of June 30:

		2017		2016	
		Cost	Fair value	Cost	Fair value
Cash equivalents	$	109,658	109,658	81,929	81,929
Equity investments		117,170	257,410	125,546	226,350
Fixed income investments		10,550	10,661	10,428	10,611
Private equity		72,692	85,443	66,966	88,778
Venture capital		30,635	32,539	24,255	25,373
Hedge – long/short equity		119,916	173,361	131,975	189,648
Hedge – absolute return		112,600	161,028	112,591	150,679
Real assets		69,940	79,556	66,714	75,350
Other		703	703	985	985
Total long-term investments	$	643,864	910,359	621,389	849,703

Below is a summary of University investments by major investment category:

(a) Equity Investments

This category includes long-only equity funds in the United States, international developed markets and emerging markets. Over the long-term, these investments are expected to reflect the economic climate in which the University operates. There were no unfunded commitments for these investments as of

June 30, 2017 and 2016. These investments allow redemptions semi-monthly with seven days notice, monthly with ten days notice or quarterly with 30–90 days notice.

(b) Fixed Income Investments

This category includes funds that invest in core fixed income positions. These investments, combined with cash and cash equivalents, are meant to provide liquidity to the University. There were no unfunded commitments for these investments as of June 30, 2017 and 2016. These investments allow redemptions daily.

(c) Private Equity

This category includes investments in private equity buyout and distressed credit opportunity funds that invest primarily in companies domiciled in the United States. Total commitments for these investments were approximately $274,838, with $80,757 unfunded at June 30, 2017, and approximately $264,838, with $78,710 unfunded at June 30, 2016. The University does not have any redemption rights in these investments and the investments have estimated remaining lives between one and fifteen years.

(d) Venture Capital

This category includes investments in venture capital funds that invest primarily in companies domiciled in the United States. Total commitments for these investments were approximately $69,317, with $18,877 unfunded at June 30, 2017, and approximately $69,317, with $26,048 unfunded at June 30, 2016. The University does not have any redemption rights in these investments and the investments have estimated remaining lives between one and fifteen years.

(e) Hedge – Long/Short Equity

This category includes funds that invest traditional equities but complement the holdings with short positions in securities they believe are overvalued. The short portfolio acts as a hedge during market declines but may also serve as an additional source of investment return. Managers of these funds have the ability to shift between growth and value stocks across all capitalizations. There were no unfunded commitments for these investments as of June 30, 2017 and 2016. These investments have varying redemption rights including monthly with 60 days notice, quarterly with 45–60 days notice, and annually with 45 days notice.

(f) Hedge – Absolute Return

This category includes single and multi-strategy hedged investments such as merger and risk arbitrage, distressed securities, asset-backed securities, and other credit and volatility investments. These strategies are designed to provide equity-like returns regardless of the economic environment with limited correlation to the traditional equity and fixed income markets. There were no unfunded commitments for these investments as of June 30, 2017 and 2016. These investments allow redemptions monthly with 30 days notice, semi-annually with 60 days notice, quarterly with 90 days notice or annually with 45 or 90 days notice.

(In thousands of dollars)

(g) Real Assets

This category includes global investments in residential and commercial real estate and interests in natural resources. Total commitments for these investments were approximately $154,828, with $36,810 unfunded at June 30, 2017, and approximately $144,828, with $35,547 unfunded at June 30, 2016. The University does not have any redemption rights in these investments and the investments have estimated remaining lives between one and fifteen years.

Investment fees are netted against gains and losses. The components of total investment return from all sources for the years ended June 30 are reflected below:

		2017	2016
Interest income and dividends, net	$	5,234	5,659
Realized and unrealized gains (losses), net		90,461	(31,029)
Total investment return	$	95,695	(25,370)

Investment return, as reflected in the consolidated statements of activities as of June 30 is as follows:

		2017	2016
Investment return designated for operations:			
Unrestricted	$	13,581	12,818
Temporarily restricted		35,433	33,414
		49,014	46,232
Nonoperating investment return:			
Unrestricted		6,537	(18,744)
Temporarily restricted		37,479	(48,884)
Permanently restricted		2,665	(3,974)
		46,681	(71,602)
Total investment return	$	95,695	(25,370)

(In thousands of dollars)

The following tables present the University's financial instruments carried at fair value based on the valuation hierarchy previously described in note 2(c) as of June 30:

	2017				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV	Total
Intermediate investments:					
Cash equivalents	$ 151,292	—	—	—	151,292
Funds held in trust by others	—	—	14,379	—	14,379
Long-term investments:					
Cash equivalents	109,658	—	—	—	109,658
Equity investments	107,457	—	—	149,953	257,410
Fixed income investments	10,243	418	—	—	10,661
Private equity	—	—	—	85,443	85,443
Venture capital	—	—	—	32,539	32,539
Hedge – long/short equity	—	—	—	173,361	173,361
Hedge – absolute return	—	—	—	161,028	161,028
Real assets	—	—	—	79,556	79,556
Other	16	687	—	—	703
Total long-term investments	227,374	1,105	—	681,880	910,359
	$ 378,666	1,105	14,379	681,880	1,076,030

(In thousands of dollars)

	2016				
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Investments measured at NAV**	**Total**
Intermediate investments:					
Cash equivalents	$ 61,371	—	—	—	61,371
Funds held in trust by others	—	—	14,830	—	14,830
Long-term investments:					
Cash equivalents	81,929	—	—		81,929
Equity investments	91,740	—	—	134,610	226,350
Fixed income investments	10,145	466	—	—	10,611
Private equity	—	—	—	88,778	88,778
Venture capital	—	—	—	25,373	25,373
Hedge – long/short equity	—	—	—	189,648	189,648
Hedge – absolute return	—	—	—	150,679	150,679
Real assets	—	—	—	75,350	75,350
Other	18	646	—	321	985
Total long-term investments	183,832	1,112	—	664,759	849,703
	$ 245,203	1,112	14,830	664,759	925,904

There were no changes in methodologies used at June 30, 2017 and 2016 and there were no transfers among levels during the years ended June 30, 2017 and 2016.

The following table is a rollforward of the consolidated statement of financial position amounts for financial instruments classified by the University within Level 3 of the valuation hierarchy:

	Level 3
Balance at June 30, 2015	$ 15,340
Net realized and unrealized losses	(454)
Settlements	(56)
Balance at June 30, 2016	14,830
Net realized and unrealized losses	1,298
Purchases	135
Settlements	(1,884)
Balance at June 30, 2017	$ 14,379

The value of certain alternative investments represents the ownership interest in the respective partnership. The fair values of alternative investments are determined by the respective general partners taking into consideration, among other things, the cost of the underlying securities, prices of recent significant placements of securities of the same issuer, subsequent developments concerning the companies to which the securities relate, appraisals, or other estimates that require varying degrees of judgment. These pricing inputs and methods may produce a fair value calculation that may not be indicative of the ultimate realizable value. Accordingly, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

As part of its initial consideration of investment managers, the University performs various due diligence procedures. Once selected, managers are subject to ongoing monitoring procedures. The University reviews and evaluates the values provided by the investment managers as frequently as they are provided. In addition, the University receives and reviews annual audited financial statements from each manager and finds the valuation methods and assumptions used in determining the fair value of these investments to be reasonable.

(5) Endowment and Similar Funds

Endowment and similar funds are long-term assets of the University created either by donor gifts or by actions of the Board of Trustees. Their purpose is to generate operating revenue for specific activities or for the use of the University. Endowment and similar funds are invested under the direction of the Board of Trustees to achieve maximum long-term total return with prudent concern for the preservation of investment capital. All investments of endowment and similar funds are recorded in the consolidated statements of financial position as long-term investments, including cash balances held by external investment managers. Unless otherwise directed in the gift instrument or required by applicable law, both donor-restricted and board-designated endowment funds are pooled for efficient investment purposes. These pooled funds are invested in a broadly diversified portfolio designed to produce long-term returns that equal or exceed the Board-approved spending rates plus the impacts of inflation. The fair value of endowment investments (separately invested and pooled) was $881,303 and $821,597 as of June 30, 2017 and 2016, respectively.

The New York Prudent Management of Institutional Funds Act (NYPMIFA) governs the management and investment of funds held by not-for-profit corporations and other institutions. Absent donor stipulations to the contrary, the statutory guidelines contained in NYPMIFA relate to the prudent management, investment and expenditure of donor-restricted endowment funds without regard to the original value of the gifts. However, NYPMIFA contains specific factors that must be considered prior to making investment decisions or appropriating funds for expenditure.

The Board of Trustees' interpretation of its fiduciary responsibilities for donor-restricted endowment funds under New York State's Not-for-Profit Corporation Law, including NYPMIFA, is to preserve intergenerational equity to the extent possible by prudently managing, investing, and spending from the endowment funds. This principle holds that future endowment beneficiaries should receive at least the same level of economic support that the current generation receives. As a result of this interpretation, the University classifies as permanently restricted net assets the unappropriated portion of (a) the original value of gifts donated to a true endowment fund, (b) the original value of subsequent gifts to a true endowment fund, and (c) accumulations to a true endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unspent appropriations related to donor-restricted endowment funds are classified as temporarily restricted net assets until the amounts are expended by the University in a manner consistent with the donor's intent. The remaining portion of donor-restricted endowment funds that are not classified as permanently or temporarily restricted net assets are classified as unrestricted net assets.

(In thousands of dollars)

The Board of Trustees determines the appropriate amount to withdraw from endowment and similar funds on an annual basis to provide support for operations with prudent concern for the long-term growth in the underlying assets as well as the specific factors detailed in NYPMIFA. The Board-approved spending policy is designed to insulate endowment support for programming from short-term fluctuations in capital markets.

Unless otherwise directed in the gift instrument or required by applicable law, annual spending will normally increase 4.5% over the prior year's spending, provided that the amount so determined is not greater than 5.5% of the average fair value for the preceding four quarters, or less than 4.5% of the average fair value for the preceding eight quarters. The endowment provided support for general operations of $44,319 and $41,789 in fiscal 2017 and 2016, respectively. Endowment also provided an additional regularly scheduled draw for unrestricted purposes of $3,394 and $3,080 in fiscal 2017 and 2016, respectively.

Effective with fiscal year 2019, the annual spending will be modified to reflect a normal increase of 2.5% over the prior year's spending providing that the amount so determined is not greater than 5.5% of the average fair value for the preceding four quarters, or less than 4.0% of the average fair value for the preceding eight quarters.

The following tables provide (1) the net asset composition of the endowment as of June 30 and (2) a rollforward of the net assets from July 1 to June 30. The net assets of the endowment include an interfund receivable of $2,048 and $2,719 at June 30, 2017 and 2016, respectively.

Endowment net asset composition by type of fund as of June 30, 2017	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted funds	$ 12,095	311,729	377,131	700,955
Funds functioning as endowment (Quasi)	182,396	—	—	182,396
Total funds at June 30, 2017	$ 194,491	311,729	377,131	883,351

(In thousands of dollars)

Endowment net asset composition by type of fund as of June 30, 2016		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$	11,611	275,429	363,708	650,748
Funds functioning as endowment (Quasi)		173,568	—	—	173,568
Total funds at June 30, 2016	$	185,179	275,429	363,708	824,316

		2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at beginning of year	$	185,179	275,429	363,708	824,316
Investment return		18,807	70,879	2,666	92,352
New gifts		314	100	7,670	8,084
Amounts appropriated for expenditure		(8,885)	(35,434)	—	(44,319)
Total other changes and reclassifications		(924)	755	3,087	2,918
Net assets at end of year	$	194,491	311,729	377,131	883,351

		2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at beginning of year	$	200,420	328,211	361,047	889,678
Investment return		(6,670)	(19,815)	(3,974)	(30,459)
New gifts		1,979	185	6,174	8,338
Amounts appropriated for expenditure		(8,375)	(33,414)	—	(41,789)
Total other changes and reclassifications		(2,175)	262	461	(1,452)
Net assets at end of year	$	185,179	275,429	363,708	824,316

(Continued)

(In thousands of dollars)

Pooled Funds

Endowment and similar funds are pooled on a unit fair value basis whenever possible. Funds are added to or withdrawn from the pool at the unit fair value at the beginning of the fiscal quarter in which the transaction takes place. Pooled funds were as follows as of June 30:

	2017	2016
Fair value of investments in pooled funds, net	$ 882,933	823,529
Total number of units	47,345	46,688
Market value per unit	18.65	17.64

Total return on endowment and similar funds, consisting of realized and unrealized gains and losses, dividends and interest income, was 12.2% and (2.6%) for the years ended June 30, 2017 and 2016, respectively.

(6) Land, Buildings and Equipment, Net

Investments in land, buildings and equipment consist of the following at June 30:

	2017	2016
Land and improvements	$ 39,639	36,948
Buildings	511,760	459,482
Equipment and library books	99,778	98,104
Construction in progress	9,574	31,314
Total cost	660,751	625,848
Less accumulated depreciation	(249,476)	(237,752)
Total land, buildings and equipment, net	$ 411,275	388,096

Depreciation expense for the years ended June 30, 2017 and 2016 was $13,910 and $13,108, respectively. Outstanding commitments for construction contracts amounted to $18,496 and $13,348 at June 30, 2017 and 2016, respectively. Net capitalized interest was $398 and $370 for the years ended June 30, 2017 and 2016, respectively.

(In thousands of dollars)

(7) Long-Term Debt

Long-term obligations at June 30 are summarized as follows:

		2017	2016
New York State Dormitory Authority Issue:			
Series 1996, 6.00%, due July 1, 2021	$	6,700	7,815
Madison County Capital Resource Corporation:			
Tax-Exempt Revenue Bonds:			
Series 2010A, 4.93%, due July 1, 2040		30,445	31,425
Series 2012A, 4.71%, due July 1, 2033		22,375	23,790
Series 2013A, 4.73%, due July 1, 2039		42,975	42,975
Series 2015A, 4.90%, due July 1, 2041		39,985	39,985
Series 2015B, 4.71%, due July 1, 2044		49,670	49,670
Colgate University:			
Taxable Revenue Bonds:			
Series 2013B, 4.11%, due July 1, 2043		25,000	25,000
Private Placement:			
Series 2017, 3.37%, due July 1, 2052		107,594	—
Total long-term debt – principal		324,744	220,660
Bond premium and issuance costs, net		17,477	18,773
Total long-term debt, net	$	342,221	239,433

Interest expense is allocated to functional expenses based on the original purpose of the bond proceeds and square footage.

The various notes and bonds are collateralized by the related property and equipment. Certain agreements require the establishment of debt service and building and equipment reserves. Included in intermediate investments are unexpended debt proceeds of $140,038 and $50,228 and deposits with bond trustees of $11,158 and $11,042 at June 30, 2017 and 2016, respectively.

During fiscal year 2017, the University entered into a $107,594 private bank placement. The loan carries a 3.37% fixed rate for 15 years and is amortized over 34 years. The proceeds of the loan will be used to finance various capital projects. Until that time, the proceeds will be invested in a liquid portfolio designed to generate investment return.

On July 1, 2015, the University used the proceeds of the Series 2015A bonds to retire the Series 2005A bonds. This resulted in an $889 gain.

(In thousands of dollars)

Principal maturities of long-term obligations, exclusive of net premium are as follows:

2018	$	3,695
2019		3,895
2020		4,100
2021		4,625
2022		6,957
2023–2045		301,472
Total principal payments	$	324,744

The University has a line of credit available with a limit of $15,000, with interest calculated on the outstanding balance at the 30, 60, or 90 day LIBOR rate plus 50 basis points or Prime. There were no amounts outstanding on the line as of June 30, 2017 and 2016. The terms of the line expire on March 2, 2018.

(8) Retirement Benefits

The University participates in a contributory retirement plan administered by the Teachers Insurance Annuity Association of America and College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments. In accordance with the current plan documents, all employees who have completed one year of full-time service at the University are eligible for participation in the plan. All retirement benefits are funded and vested under a defined contribution program. The University's contributions to the retirement plan amounted to $7,145 and $6,963 in 2017 and 2016, respectively.

The University also provides health and life insurance benefits for eligible employees upon retirement at the University's early or normal retirement ages. Employees hired by the University after June 30, 2012 are not eligible for University-provided dental or life insurance benefits upon retirement. These employees are eligible to participate in a defined contribution plan once they reach the age of 40. Existing employees may still qualify for the current University subsidized retiree programs subject to the continuing right to amend or terminate the programs at any time. However, effective January 1, 2020, the University will no longer provide prescription drug insurance coverage for employees and retirees enrolled in the University's defined benefit retiree health plan.

(In thousands of dollars)

Information with respect to the plan is as follows:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	24,840	21,542
Service cost		535	530
Interest cost		662	899
Plan participants' contributions		517	452
Actuarial (gain)/loss		(5,477)	2,737
Benefits paid		(1,498)	(1,320)
Benefit obligation at end of year		19,579	24,840
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contribution		981	868
Plan participants’ contributions		517	452
Benefits paid		(1,498)	(1,320)
Fair value of plan assets at end of year		—	—
Funded status at June 30	$	19,579	24,840

(Continued)

(In thousands of dollars)

	Unamortized prior service cost (credit)	Unamortized net loss (gain)	Amounts recognized in unrestricted net assets
Balance as of June 30, 2015	$ (10,704)	6,461	(4,243)
Amortization	1,180	(510)	670
Actuarial loss	—	2,737	2,737
Total postretirement related charges other than net periodic benefit costs	1,180	2,227	3,407
Balance as of June 30, 2016	(9,524)	8,688	(836)
Amortization	1,180	(239)	941
Actuarial gain	—	(5,477)	(5,477)
Total postretirement related charges other than net periodic benefit costs	1,180	(5,716)	(4,536)
Balance as of June 30, 2017	$ (8,344)	2,972	(5,372)

The University records contributions as operating expense and all other activity is recorded as nonoperating.

	2017	2016
Net periodic benefit cost:		
Service cost	$ 535	530
Interest cost	662	899
Amortization of:		
Actuarial net loss	239	510
Prior service cost	(1,180)	(1,180)
Net periodic benefit cost	$ 256	759

The prior service credit of $1,180 and actuarial loss of $239 for the postretirement health care benefit plan will be amortized from unrestricted net assets into net periodic benefit costs in 2018.

(In thousands of dollars)

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

		2017	
		One percent point increase	**One percent point decrease**
Effect on total service and interest cost components	$	233	(182)
Effect on postretirement benefit obligation		2,776	(2,280)

		2016	
		One percent point increase	**One percent point decrease**
Effect on total service and interest cost components	$	301	(233)
Effect on postretirement benefit obligation		3,990	(3,235)

Expected Cash Flows

Information about the expected cash flows for the postretirement healthcare benefit plan follows:

Expected benefit payments for the year ended June 30:		
2018	$	1,072
2019		1,085
2020		1,088
2021		1,047
2022		1,099
2023–2027		5,727

(In thousands of dollars)

The weighted average rates forming the basis of net periodic benefit cost and amounts recognized in University's consolidated statements of financial position at June 30 were:

	2017	2016
Benefit obligations:		
Discount rate	3.65 %	3.38 %
Net periodic benefit cost:		
Discount rate	3.38	4.26
Healthcare cost trend rates:		
Pre-age 65 health care benefits	7.25	7.50
Post-age 65 health care benefits	6.25	6.50
Prescription drug coverage	10.50	10.50
Rate to which the cost trend rate is to decline	3.89	3.89
Year that rate reaches the ultimate trend rate	2075	2075

(9) Temporarily and Permanently Restricted Net Assets

Donor restricted net assets consist of the following at June 30:

	2017		2016	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Pledges receivable	$ 3,984	—	5,278	—
Restricted for facilities	7,667	—	5,739	—
Restricted for operations	6,404	—	7,029	—
Annuities, deferred giving arrangements, and loan funds	16,902	10,056	16,518	10,156
Endowments:				
Financial aid	133,003	184,645	115,802	177,200
Endowed chairs and salaries	75,257	52,385	68,306	51,733
Instruction, facilities, library, and other	103,469	140,101	91,321	134,775
Total net assets	$ 346,686	387,187	309,993	373,864

(10) Related Party Activity

Certain investments held by the University are managed by investment companies in which Trustees of the University, or their family members, have a direct financial interest. Fair value of these investments total $9,132 and $30,566 at June 30, 2017 and 2016, respectively, all of which were made in accordance with the University's conflict of interest policy.

(In thousands of dollars)

(11) Natural Classification of Expenses

Operating expenses presented by natural classification are as follows for the fiscal years ended June 30:

	2017	2016
Salaries and wages	$ 81,294	76,730
Payroll taxes and benefits	22,171	21,881
Total compensation	103,465	98,611
General operating expenses	26,189	26,609
Repairs, maintenance, and other contracted services	15,505	14,661
Depreciation expense	13,910	13,108
Travel and entertainment	9,283	9,383
Utilities	4,784	4,832
Cost of goods sold	2,956	2,163
Taxes, contributions, and insurance	3,311	3,287
Auxiliaries and expense	2,152	1,958
Interest and fees	10,048	9,393
Total operating expenses	$ 191,603	184,005

(12) Contingencies

The University is subject to various claims and lawsuits. In management's opinion, the resolution of these matters will not have a significant adverse effect on the University's financial position, operations, or cash flows.

(13) Subsequent Events

The University considers events or transactions that occur after the date of the consolidated statement of financial position, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were available to be issued on October 11, 2017 and subsequent events have been evaluated through that date.