COLGATE UNIVERSITY

Consolidated Financial Statements

June 30, 2016 and 2015

(With Independent Auditors’ Report Thereon)

COLGATE UNIVERSITY

Consolidated Financial Statements

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KPMG
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, 2016 and 2015, 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 auditors consider 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, 2016 and 2015, 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

September 30, 2016

COLGATE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2016 and 2015

(In thousands of dollars)

Assets		**2016**	**2015**
Cash and cash equivalents	$	31,939	34,686
Accounts receivable, net		1,700	1,849
Intermediate-term investments		61,371	59,045
Inventories		1,868	2,199
Prepaid expenses and other assets		1,091	875
Student loans receivable, net		2,316	2,644
Pledges receivable, net		5,278	6,966
Long-term investments		849,703	921,780
Land, buildings and equipment, net		388,096	356,360
Funds held in trust by others		14,830	15,340
Total assets	$	1,358,192	1,401,744
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	29,148	21,514
Deposits and deferred revenues		12,899	13,992
Annuities and deferred giving arrangements		16,058	15,858
Postretirement benefits		24,840	21,542
Federal student loan funds		2,237	3,457
Conditional asset retirement obligations		9,750	9,713
Long-term debt, net		239,433	234,099
Total liabilities		334,365	320,175
Net assets:			
Unrestricted		339,970	335,301
Temporarily restricted		309,993	374,869
Permanently restricted		373,864	371,399
Total net assets		1,023,827	1,081,569
Total liabilities and net assets	$	1,358,192	1,401,744

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2016
(with summarized information for the year ended June 30, 2015)

(In thousands of dollars)

	2016				2015
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	$ 146,851	—	—	146,851	141,750
Less scholarships	(54,275)	—	—	(54,275)	(50,130)
Net tuition and fees	92,576	—	—	92,576	91,620
Sales and services of auxiliaries	31,250	—	—	31,250	29,139
Government grants and contributions	910	1,285	—	2,195	1,790
Private grants and contributions	6,645	7,704	—	14,349	12,493
Investment return designated for operations	12,818	33,414	—	46,232	43,294
Other	2,949	—	—	2,949	3,082
Net assets released from restrictions	40,752	(40,752)	—	—	—
Total operating revenues	187,900	1,651	—	189,551	181,418
Operating expenses:					
Instruction and research	72,928	—	—	72,928	72,539
Athletics	23,019	—	—	23,019	21,653
Academic support	18,100	—	—	18,100	17,507
Student services	15,395	—	—	15,395	14,405
Institutional support	29,433	—	—	29,433	28,504
Auxiliary operations	25,130	—	—	25,130	24,742
Total operating expenses	184,005	—	—	184,005	179,350
Increase in net assets from operating activities	3,895	1,651	—	5,546	2,068
Nonoperating activities:					
Investment return, less amounts designated for current operations	(18,744)	(48,884)	(3,974)	(71,602)	4,684
Grants and contributions	2,029	4,658	6,581	13,268	22,763
Change in value of split interest agreements	—	(1,111)	(64)	(1,175)	(1,459)
Postretirement benefits	(3,297)	—	—	(3,297)	(763)
Other	(482)	—	—	(482)	(1,983)
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)	23,242
Change in net assets	4,669	(64,876)	2,465	(57,742)	25,310
Net assets:					
Beginning of year	335,301	374,869	371,399	1,081,569	1,056,259
End of year	$ 339,970	309,993	373,864	1,023,827	1,081,569

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2015

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:					
Tuition and fees	$	141,750	—	—	141,750
Less scholarships		(50,130)	—	—	(50,130)
Net tuition and fees		91,620	—	—	91,620
Sales and services of auxiliaries		29,139		—	29,139
Government grants and contributions		654	1,136	—	1,790
Private grants and contributions		6,006	6,487	—	12,493
Investment return designated for operations		11,777	31,517	—	43,294
Other		3,082	—	—	3,082
Net assets released from restrictions		37,921	(37,921)	—	—
Total operating revenues		180,199	1,219	—	181,418
Operating expenses:					
Instruction and research		72,539	—	—	72,539
Athletics		21,653	—	—	21,653
Academic support		17,507	—	—	17,507
Student services		14,405	—	—	14,405
Institutional support		28,504	—	—	28,504
Auxiliary operations		24,742	—	—	24,742
Total operating expenses		179,350	—	—	179,350
Increase in net assets from operating activities		849	1,219	—	2,068
Nonoperating activities:					
Investment return, less amounts designated for current operations		(1,139)	5,551	272	4,684
Grants and contributions		733	10,447	11,583	22,763
Change in value of split interest agreements		—	(1,001)	(458)	(1,459)
Postretirement benefits		(763)	—	—	(763)
Other		(1,983)	—	—	(1,983)
Net assets released from restrictions		6,257	(6,257)	—	—
Changes in donor intent and other reclassifications		269	(200)	(69)	—
Increase in net assets from nonoperating activities		3,374	8,540	11,328	23,242
Change in net assets		4,223	9,759	11,328	25,310
Net assets:					
Beginning of year		331,078	365,110	360,071	1,056,259
End of year	$	335,301	374,869	371,399	1,081,569

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands of dollars)

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(57,742)	25,310
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation, amortization and accretion		12,753	12,896
Gain on extinguishment of debt		(889)	—
Receipt of contributed securities		(2,597)	(7,367)
Contributions for long-term investment		(12,262)	(21,413)
Realized and unrealized loss (gain) on investments		31,029	(39,678)
Changes in assets and liabilities that provide (use) cash:			
Accounts receivable		149	(365)
Inventories		331	(357)
Prepaid expenses and other assets		(216)	86
Pledges receivable		1,688	6,108
Funds held in trust by others		510	(6,089)
Accounts payable and accrued expenses		(1,675)	2,320
Deposits and deferred revenues		(1,093)	253
Annuities and deferred giving arrangements		200	1,662
Postretirement benefits		3,298	763
Conditional asset retirement obligations		(449)	(368)
Net cash used in operating activities		(26,965)	(26,239)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, net		(35,064)	(16,424)
Proceeds from student loan collections		531	531
Student loans issued		(203)	(286)
Purchases of investments		(178,613)	(98,641)
Proceeds from sales and maturities of investments		217,335	71,810
Sales of contributed securities		2,597	7,367
Net cash provided by (used in) investing activities		6,583	(35,643)
Cash flows from financing activities:			
Contributions for long-term investment		11,791	21,133
Change in federal student loan funds		(1,220)	33
Proceeds from issuance of long-term debt		49,670	39,985
Payments on long-term debt		(47,055)	(3,205)
Premium on long-term debt issuance		5,328	5,579
Bond issuance costs		(879)	(776)
Net cash provided by financing activities		17,635	62,749
Net (decrease) increase in cash and cash equivalents		(2,747)	867
Cash and cash equivalents at beginning of year		34,686	33,819
Cash and cash equivalents at end of year	$	31,939	34,686
Supplemental data:			
Noncash investing and financing activities – capital gifts in kind	$	471	280
Increase (decrease) in construction related payables		9,309	(633)
Interest paid		9,352	8,609

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 500 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 40 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.

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.

(In thousands of dollars)

(f) Student Loans Receivable

Student loans receivable are reported net of reserves for doubtful loans of $1,010 and $926 at June 30, 2016 and 2015, 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.

(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 $27,305 and $28,358 at June 30, 2016 and 2015, 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 $486 and $479 in 2016 and 2015, respectively.

(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.

(In thousands of dollars)

(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.

(3) Pledges Receivable

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

		2016	2015
Less than one year	$	3,180	3,449
One year to five years		2,876	4,848
Subtotal		6,056	8,297
Less discount and allowance		(778)	(1,331)
Total pledges receivable, net	$	5,278	6,966

At June 30, 2016 and 2015, the University had outstanding conditional pledges and bequests of approximately $155,890 and $160,622, respectively, which due to their conditional nature, are not recorded by the University.

(In thousands of dollars)

(4) Long-Term Investments and Fair Value Measurements

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

	2016		2015	
	Cost	**Fair value**	**Cost**	**Fair value**
Cash equivalents	$ 81,929	81,929	74,935	74,935
Equity investments	125,546	226,350	170,469	295,927
Fixed income investments	10,428	10,611	21,905	22,037
Private equity	66,966	88,778	63,889	92,969
Venture capital	24,255	25,373	20,590	24,650
Hedge – long/short equity	131,975	189,648	96,079	164,846
Hedge – absolute return	112,591	150,679	118,855	172,578
Real assets	66,714	75,350	54,826	72,896
Other	985	985	942	942
	$ 621,389	849,703	622,490	921,780

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, 2016 and 2015. These investments allow redemptions semi-monthly with seven days notice, monthly with ten days notice, quarterly with 30–60 days notice, or annually with 90 days notice.

(b) Fixed Income Investments

This category includes investments 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, 2016 and 2015. These investments allow redemptions daily with one day notice.

(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 $264,838, with $78,710 unfunded at June 30, 2016, and approximately $209,838, with $25,278 unfunded at June 30, 2015. The University does not have any redemption rights in these investments and the investments have remaining lives between one and fifteen years.

(Continued)

(In thousands of dollars)

(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 $26,048 unfunded at June 30, 2016, and approximately $60,317, with $20,405 unfunded at June 30, 2015. The University does not have any redemption rights in these investments and the investments have remaining lives between one and fifteen years.

(e) Hedge – Long/Short Equity

This category includes investments that own 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, 2016 and 2015. 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, 2016 and 2015. 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.

(g) Real Assets

This category includes fund investments in residential and commercial real estate and interests in natural resources primarily in the United States and Europe. Total commitments for these investments were approximately $144,828, with $35,547 unfunded at June 30, 2016, and approximately $139,987, with $47,769 unfunded at June 30, 2015. The University does not have any redemption rights in these investments and the investments have 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:

		2016	2015
Interest income and dividends, net	$	5,659	8,300
Realized and unrealized (losses) gains, net		(31,029)	39,678
Total investment return	$	(25,370)	47,978

(In thousands of dollars)

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

		2016	2015
Investment return designated for operations:			
Unrestricted	$	12,818	11,777
Temporarily restricted		33,414	31,517
		46,232	43,294
Nonoperating investment return:			
Unrestricted		(18,744)	(1,139)
Temporarily restricted		(48,884)	5,551
Permanently restricted		(3,974)	272
		(71,602)	4,684
Total investment return	$	(25,370)	47,978

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

		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

(Continued)

(In thousands of dollars)

	2015					
		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	$	59,045	—	—	—	59,045
Funds held in trust by others		—	—	15,340	—	15,340
Long-term investments:						
Cash equivalents		74,935	—	—	—	74,935
Equity investments		126,775	—	—	169,152	295,927
Fixed income investments		10,446	398	—	11,193	22,037
Private equity		—	—	—	92,969	92,969
Venture capital		—	—	—	24,650	24,650
Hedge – long/short equity		—	—	—	164,846	164,846
Hedge – absolute return		—	—	—	172,578	172,578
Real assets		—	—	—	72,896	72,896
Other		16	605	—	321	942
Total long-term investments		212,172	1,003	—	708,605	921,780
	$	271,217	1,003	15,340	708,605	996,165

There were no changes in methodologies used at June 30, 2016 and 2015 and there were no transfers among levels during the year end June 30, 2016 and 2015. The 2015 fair value table above was amended to present certain investments previously disclosed as being measured using NAV as a practical expedient to estimate fair value but for which readily determinable fair values exist, in accordance with ASU 2015-10, *Technical Corrections and Improvements*. These changes resulted in a decrease in investments measured at NAV and a corresponding increase in Level 1 investments of $81,264.

(In thousands of dollars)

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:

		Fair value measurements using significant unobservable inputs (Level 3)
Balance at June 30, 2014	$	9,251
Net realized and unrealized losses		(200)
Purchases		6,298
Settlements		(9)
Balance at June 30, 2015		15,340
Net realized and unrealized losses		(454)
Settlements		(56)
Balance at June 30, 2016	$	14,830

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 $821,597 and $892,549 as of June 30, 2016 and 2015, 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.

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. Endowment and similar funds provided support for general operations of $41,789 and $39,435 in fiscal 2016 and 2015, respectively. Endowment also provided an additional regularly scheduled draw for unrestricted purposes of $3,080 and $2,371 in fiscal 2016 and 2015, respectively.

(In thousands of dollars)

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 and interfund payable of $2,719 and $2,871 at June 30, 2016 and 2015, respectively.

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

Endowment net asset composition by type of fund as of June 30, 2015	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ 11,127	328,211	361,047	700,385
Funds functioning as endowment (Quasi)	189,293	—	—	189,293
Total funds at June 30, 2015	$ 200,420	328,211	361,047	889,678

	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

(In thousands of dollars)

		2015			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets at beginning of year	$	200,589	323,245	349,330	873,164
Investment return		10,296	33,808	271	44,375
New gifts		643	183	10,667	11,493
Amounts appropriated for expenditure		(9,268)	(30,167)	—	(39,435)
Total other changes and reclassifications		(1,840)	1,142	779	81
Net assets at end of year	$	200,420	328,211	361,047	889,678

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:

		2016	**2015**
Fair value of investments in pooled funds, net	$	823,529	888,960
Total number of units		46,688	46,433
Market value per unit	$	17.64	19.15

Total return on endowment and similar funds, consisting of realized and unrealized gains and losses, dividends and interest income, was (2.6%) and 5.9% for the years ended June 30, 2016 and 2015, respectively.

(6) Land, Buildings and Equipment, Net

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

		2016	**2015**
Land and improvements	$	36,948	36,789
Buildings		459,482	441,681
Equipment and library books		98,104	96,001
Construction in progress		31,314	7,421
Total cost		625,848	581,892
Less accumulated depreciation		(237,752)	(225,532)
Total land, buildings and equipment, net	$	388,096	356,360

(In thousands of dollars)

Depreciation expense for the years ended June 30, 2016 and 2015 was $13,108 and $12,976, respectively. Outstanding commitments for construction contracts amounted to $13,348 and $36,280 at June 30, 2016 and 2015, respectively. Net capitalized interest was $370 and $0 for the years ended June 30, 2016 and 2015, respectively.

(7) Long-Term Debt

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, 2016 and 2015. The terms of the line expire on March 3, 2017.

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

		2016	2015
New York State Dormitory Authority Issue:			
Series 1996, 6.00%, due July 1, 2021	$	7,815	8,875
Madison County Industrial Development Agency:			
Tax-Exempt Civic Facility Revenue Bonds:			
Series 2005A, 5.00%, due July 1, 2040		—	43,690
Madison County Capital Resource Corporation:			
Tax-Exempt Revenue Bonds:			
Series 2010A, 4.85%, due July 1, 2040		31,425	32,370
Series 2012A, 4.66%, due July 1, 2033		23,790	25,150
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	—
Colgate University:			
Taxable Revenue Bonds:			
Series 2013B, 4.11%, due July 1, 2043		25,000	25,000
Total long-term debt – principal		220,660	218,045
Bond premium and issuance costs, net		18,773	16,054
Total long-term debt, net	$	239,433	234,099

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 bond proceeds of $50,228 and $5,059 and deposits with bond trustees of $11,042 and $53,857 at June 30, 2016 and 2015, respectively.

During fiscal year 2016, the University entered into an agreement with Madison County Capital Resource Corporation whereby Madison County Capital Resource Corporation issued $49,670 in tax exempt revenue bonds (Series 2015B).

(Continued)

(In thousands of dollars)

Proceeds are being used for a new student residence and various other building renovations. The agreement is a general secured obligation of the University. The Series 2015B bonds were issued at a premium of $5,328 and a maturity date of July 1, 2043.

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.

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

Year ending June 30:		
2017	$	3,510
2018		3,695
2019		3,895
2020		4,100
2021		4,625
2022–2044		200,835
Total principal payments	$	220,660

(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 $6,963 and $6,823 in 2016 and 2015, 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 Colgate's defined benefit retiree health plan.

(In thousands of dollars)

Information with respect to the plan is as follows:

		2016	2015
Change in benefit obligation:			
Benefit obligation at beginning of year	$	21,542	20,779
Service cost		530	487
Interest cost		899	740
Plan participants' contributions		452	422
Actuarial loss		2,737	356
Benefits paid		(1,320)	(1,242)
Benefit obligation at end of year		24,840	21,542
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contribution		868	820
Plan participants' contributions		452	422
Benefits paid		(1,320)	(1,242)
Fair value of plan assets at end of year		—	—
Funded status at June 30	$	24,840	21,542

		Unamortized prior service cost (credit)	Unamortized net loss (gain)	Amounts recognized in unrestricted net assets
Balance as of June 30, 2014	$	(11,884)	6,358	(5,526)
Amortization		1,180	(253)	927
Actuarial loss		—	356	356
Total postretirement related charges other than net periodic benefit costs		1,180	103	1,283
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)

(Continued)

(In thousands of dollars)

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

		2016	**2015**
Net periodic benefit cost:			
Service cost	$	530	487
Interest cost		899	740
Amortization of:			
Actuarial net loss		510	253
Prior service cost		(1,180)	(1,180)
Net periodic benefit cost	$	759	300

The prior service credit of $1,180 and actuarial loss of $510 for the postretirement health care benefit plan will be amortized from unrestricted net assets into net periodic benefit costs in 2016.

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:

		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)

		2015	
		One percent point increase	**One percent point decrease**
Effect on total service and interest cost components	$	259	(201)
Effect on postretirement benefit obligation		3,468	(2,812)

(Continued)

(In thousands of dollars)

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:		
2017	$	934
2018		985
2019		1,055
2020		1,097
2021		1,077
2022–2026		6,119

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:

	2016	2015
Benefit obligations:		
Discount rate	3.38%	4.26%
Net periodic benefit cost:		
Discount rate	4.26	4.11
Healthcare cost trend rates:		
Pre-age 65 health care benefits	7.50	7.75
Post-age 65 health care benefits	6.50	6.75
Prescription drug coverage	10.50	8.50
Rate to which the cost trend rate is to decline	3.89	3.86
Year that rate reaches the ultimate trend rate	2075	2075

(Continued)

(In thousands of dollars)

(9) Temporarily and Permanently Restricted Net Assets

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

	2016		2015	
	Temporarily restricted	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
Pledges receivable	$ 5,278	—	6,966	—
Restricted for facilities	5,739	—	16,451	—
Restricted for operations	7,029	—	5,532	—
Annuities, deferred giving arrangements, and loan funds	16,518	10,156	17,709	10,352
Endowments:				
Financial aid	115,802	177,200	140,423	172,422
Endowed chairs and salaries	68,306	51,733	82,132	51,881
Instruction, facilities, library, and other	91,321	134,775	105,656	136,744
Total net assets	$ 309,993	373,864	374,869	371,399

(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 $30,566 and $43,276 at June 30, 2016 and 2015, 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:

		2016	2015
Salaries and wages	$	76,730	77,116
Payroll taxes and benefits		21,881	20,800
Total compensation		98,611	97,916
General operating expenses		26,609	24,711
Repairs, maintenance, and other contracted services		14,661	13,594
Depreciation expense		13,108	12,976
Travel and entertainment		9,383	8,661
Utilities		4,832	5,262
Cost of goods sold		2,163	2,234
Taxes, contributions, and insurance		3,287	3,197
Auxiliaries and expense		1,958	2,159
Interest and fees		9,393	8,640
Total operating expenses	$	184,005	179,350

(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 September 30, 2016 and subsequent events have been evaluated through that date.