



COLGATE UNIVERSITY
Consolidated Financial Statements
June 30, 2018 and 2017
(With Independent Auditors' Report Thereon)

COLGATE UNIVERSITY
Consolidated Financial Statements
June 30, 2018 and 2017

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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, 2018 and 2017, 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 control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 4, 2018

COLGATE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(In thousands of dollars)

Assets	2018	2017
Cash and cash equivalents	\$ 30,439	29,814
Accounts receivable, net	1,949	1,513
Intermediate-term investments	118,659	151,292
Inventories	1,603	1,289
Prepaid expenses and other assets	1,463	1,364
Pledges receivable, net	937	3,984
Student loans receivable, net	1,466	1,890
Long-term investments	954,233	910,359
Land, buildings and equipment, net	441,378	411,275
Funds held in trust by others	14,622	14,379
	<hr/>	<hr/>
Total assets	\$ 1,566,749	1,527,159
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 21,215	22,905
Deposits and deferred revenues	13,036	13,524
Annuities and deferred giving arrangements	16,503	15,837
Postretirement benefits	18,181	19,579
Federal student loan funds	821	2,000
Conditional asset retirement obligations	10,209	10,071
Long-term debt, net	337,698	342,221
	<hr/>	<hr/>
Total liabilities	417,663	426,137
	<hr/>	<hr/>
Net assets:		
Unrestricted	385,702	367,149
Temporarily restricted	359,607	346,686
Permanently restricted	403,777	387,187
	<hr/>	<hr/>
Total net assets	1,149,086	1,101,022
	<hr/>	<hr/>
Total liabilities and net assets	\$ 1,566,749	1,527,159
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2018

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

(In thousands of dollars)

	2018			Total	2017 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating revenues:					
Tuition and fees	\$ 160,043	—	—	160,043	154,101
Less scholarships	<u>(60,583)</u>	—	—	<u>(60,583)</u>	<u>(58,570)</u>
Net tuition and fees	99,460	—	—	99,460	95,531
Sales and services of auxiliaries	34,063	—	—	34,063	32,485
Government grants and contributions	662	2,041	—	2,703	1,846
Private grants and contributions	7,843	6,306	—	14,149	14,795
Investment return designated for operations	17,922	37,368	—	55,290	49,014
Other	4,079	—	—	4,079	3,846
Net assets released from restrictions	<u>45,046</u>	<u>(45,046)</u>	—	<u>—</u>	<u>—</u>
Total operating revenues	<u>209,075</u>	<u>669</u>	<u>—</u>	<u>209,744</u>	<u>197,517</u>
Operating expenses:					
Instruction and research	78,275	—	—	78,275	74,424
Athletics	27,956	—	—	27,956	25,012
Academic support	19,788	—	—	19,788	17,797
Student services	16,868	—	—	16,868	16,042
Institutional support	33,708	—	—	33,708	30,535
Auxiliary operations	<u>28,956</u>	—	—	<u>28,956</u>	<u>27,793</u>
Total operating expenses	<u>205,551</u>	<u>—</u>	<u>—</u>	<u>205,551</u>	<u>191,603</u>
Increase in net assets from operating activities	<u>3,524</u>	<u>669</u>	<u>—</u>	<u>4,193</u>	<u>5,914</u>
Nonoperating activities:					
Investment return, less amounts designated for current operations	1,218	24,792	1,707	27,717	46,681
Grants and contributions	1,098	601	12,418	14,117	15,635
Change in value of split interest agreements	—	635	1,000	1,635	3,652
Postretirement benefits	1,398	—	—	1,398	5,261
Other	(996)	—	—	(996)	52
Net assets released from restrictions	11,411	(11,411)	—	—	—
Changes in donor intent and other reclassifications	<u>900</u>	<u>(2,365)</u>	<u>1,465</u>	<u>—</u>	<u>—</u>
Increase in net assets from nonoperating activities	<u>15,029</u>	<u>12,252</u>	<u>16,590</u>	<u>43,871</u>	<u>71,281</u>
Change in net assets	18,553	12,921	16,590	48,064	77,195
Net assets:					
Beginning of year	<u>367,149</u>	<u>346,686</u>	<u>387,187</u>	<u>1,101,022</u>	<u>1,023,827</u>
End of year	<u>\$ 385,702</u>	<u>359,607</u>	<u>403,777</u>	<u>1,149,086</u>	<u>1,101,022</u>

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2017

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 154,101	—	—	154,101
Less scholarships	(58,570)	—	—	(58,570)
Net tuition and fees	95,531	—	—	95,531
Sales and services of auxiliaries	32,485	—	—	32,485
Government grants and contributions	663	1,183	—	1,846
Private grants and contributions	7,532	7,263	—	14,795
Investment return designated for operations	13,581	35,433	—	49,014
Other	3,846	—	—	3,846
Net assets released from restrictions	43,721	(43,721)	—	—
Total operating revenues	<u>197,359</u>	<u>158</u>	<u>—</u>	<u>197,517</u>
Operating expenses:				
Instruction and research	74,424	—	—	74,424
Athletics	25,012	—	—	25,012
Academic support	17,797	—	—	17,797
Student services	16,042	—	—	16,042
Institutional support	30,535	—	—	30,535
Auxiliary operations	27,793	—	—	27,793
Total operating expenses	<u>191,603</u>	<u>—</u>	<u>—</u>	<u>191,603</u>
Increase in net assets from operating activities	<u>5,756</u>	<u>158</u>	<u>—</u>	<u>5,914</u>
Nonoperating activities:				
Investment return, less amounts designated for current operations	6,537	37,479	2,665	46,681
Grants and contributions	346	7,265	8,024	15,635
Change in value of split interest agreements	—	2,211	1,441	3,652
Postretirement benefits	5,261	—	—	5,261
Other	52	—	—	52
Net assets released from restrictions	8,787	(9,552)	765	—
Changes in donor intent and other reclassifications	440	(868)	428	—
Increase in net assets from nonoperating activities	<u>21,423</u>	<u>36,535</u>	<u>13,323</u>	<u>71,281</u>
Change in net assets	27,179	36,693	13,323	77,195
Net assets:				
Beginning of year	<u>339,970</u>	<u>309,993</u>	<u>373,864</u>	<u>1,023,827</u>
End of year	<u>\$ 367,149</u>	<u>346,686</u>	<u>387,187</u>	<u>1,101,022</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
Years ended June 30, 2018 and 2017
(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 48,064	77,195
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation, amortization and accretion	14,299	13,557
Receipt of contributed securities	(10,252)	(3,229)
Contributions for long-term investment	(9,497)	(13,649)
Realized and unrealized gain on investments	(74,993)	(90,461)
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable, net	(436)	187
Inventories	(314)	579
Prepaid expenses and other assets	(99)	(273)
Pledges receivable, net	3,047	1,294
Funds held in trust by others	(243)	451
Accounts payable and accrued expenses	(330)	478
Deposits and deferred revenues	(488)	625
Annuities and deferred giving arrangements	666	(221)
Postretirement benefits	(1,398)	(5,261)
Conditional asset retirement obligations	(365)	(166)
Net cash used in operating activities	<u>(32,339)</u>	<u>(18,894)</u>
Cash flows from investing activities:		
Purchases of land, buildings, and equipment, net	(45,242)	(43,223)
Proceeds from student loan collections	424	453
Student loans issued	—	(27)
Purchases of investments	(177,553)	(195,953)
Proceeds from sales and maturities of investments	241,305	135,837
Sales of contributed securities	10,252	3,229
Net cash provided by (used in) investing activities	<u>29,186</u>	<u>(99,684)</u>
Cash flows from financing activities:		
Contributions for long-term investment	8,652	13,062
Change in federal student loan funds	(1,179)	(237)
Proceeds from issuance of long-term debt	—	107,594
Payments on long-term debt	(3,695)	(3,510)
Bond issuance costs	—	(456)
Net cash provided by financing activities	<u>3,778</u>	<u>116,453</u>
Net increase (decrease) in cash and cash equivalents	625	(2,125)
Cash and cash equivalents at beginning of year	<u>29,814</u>	<u>31,939</u>
Cash and cash equivalents at end of year	<u>\$ 30,439</u>	<u>29,814</u>
Supplemental data:		
Noncash investing and financing activities – capital gifts in kind	\$ 845	587
Decrease in construction related payables	(1,360)	(6,721)
Interest paid	12,579	10,004

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

(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.

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(In thousands of dollars)

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.

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June 30, 2018 and 2017

(In thousands of dollars)

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 \$1,118 and \$1,075 at June 30, 2018 and 2017, 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.

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(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:

	<u>Years</u>
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 \$29,706 and \$28,195 at June 30, 2018 and 2017, 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 \$503 and \$487 in 2018 and 2017, respectively.

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

(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.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law (Public Law No. 115-97) includes substantial changes to the taxation of individuals, businesses, multinational enterprises and others. In addition to many generally applicable provisions, the law contains several specific provisions that result in changes to the tax treatment of tax-exempt organizations and their donors. The University has reviewed these provisions and the

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(In thousands of dollars)

potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

(3) Pledges Receivable

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

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 990	2,335
One year to five years	—	1,910
Subtotal	990	4,245
Less present value discount (2.7% to 3.7%) and allowance	(53)	(261)
Total pledges receivable, net	\$ <u>937</u>	<u>3,984</u>

At June 30, 2018 and 2017, the University had outstanding conditional pledges and bequests of approximately \$149,866 and \$148,286, 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:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Cash equivalents	\$ 39,952	39,952	109,658	109,658
Equities	168,995	314,575	117,170	257,410
Fixed income	110,866	110,238	10,550	10,661
Private equity	73,541	83,417	72,692	85,443
Venture capital	39,161	43,489	30,635	32,539
Hedge – long/short equity	75,772	112,621	119,916	173,361
Hedge – absolute return	113,026	165,793	112,600	161,028
Real assets	72,021	83,412	69,940	79,556
Other	736	736	703	703
Total long-term investments	\$ <u>694,070</u>	<u>954,233</u>	<u>643,864</u>	<u>910,359</u>

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

(a) Equities

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

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(In thousands of dollars)

in which the University operates. There were no unfunded commitments for these investments as of June 30, 2018 and 2017. 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

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, 2018 and 2017. 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 \$299,804, with \$92,737 unfunded at June 30, 2018, and approximately \$274,838, with \$80,757 unfunded at June 30, 2017. 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 \$71,817, with \$21,447 unfunded at June 30, 2018, and approximately \$69,317, with \$18,877 unfunded at June 30, 2017. 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 compliment 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, 2018 and 2017. 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, 2018 and 2017. 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.

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(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 \$157,828, with \$40,789 unfunded at June 30, 2018, and approximately \$154,828, with \$36,810 unfunded at June 30, 2017. 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 investment income. The components of total investment return from all sources for the years ended June 30 are reflected below:

	<u>2018</u>	<u>2017</u>
Interest income and dividends, net	\$ 8,014	5,234
Realized and unrealized gains, net	<u>74,993</u>	<u>90,461</u>
Total investment return	\$ <u>83,007</u>	<u>95,695</u>

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

	<u>2018</u>	<u>2017</u>
Investment return designated for operations:		
Unrestricted	\$ 17,922	13,581
Temporarily restricted	<u>37,368</u>	<u>35,433</u>
	<u>55,290</u>	<u>49,014</u>
Nonoperating investment return:		
Unrestricted	1,218	6,537
Temporarily restricted	24,792	37,479
Permanently restricted	<u>1,707</u>	<u>2,665</u>
	<u>27,717</u>	<u>46,681</u>
Total investment return	\$ <u>83,007</u>	<u>95,695</u>

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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:

	2018				
	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	\$ 118,659	—	—	—	118,659
Funds held in trust by others	—	—	14,622	—	14,622
Long-term investments:					
Cash equivalents	39,952	—	—	—	39,952
Equities	184,441	—	—	130,134	314,575
Fixed income	109,832	406	—	—	110,238
Private equity	—	—	—	83,417	83,417
Venture capital	—	—	—	43,489	43,489
Hedge – long/short equity	—	—	—	112,621	112,621
Hedge – absolute return	—	—	—	165,793	165,793
Real assets	—	—	—	83,412	83,412
Other	16	720	—	—	736
	<u>334,241</u>	<u>1,126</u>	<u>—</u>	<u>618,866</u>	<u>954,233</u>
Total long-term investments	<u>\$ 452,900</u>	<u>1,126</u>	<u>14,622</u>	<u>618,866</u>	<u>1,087,514</u>

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	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
Equities	107,457	—	—	149,953	257,410
Fixed income	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

There were no changes in methodologies used at June 30, 2018 and 2017 and there were no transfers among levels during the years ended June 30, 2018 and 2017.

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:

	<u>Level 3</u>
Balance at June 30, 2016	\$ 14,830
Net realized and unrealized gains	1,298
Purchases	135
Settlements	<u>(1,884)</u>
Balance at June 30, 2017	14,379
Net realized and unrealized gains	243
Purchases	—
Settlements	<u>—</u>
Balance at June 30, 2018	\$ <u>14,622</u>

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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 \$923,604 and \$881,303 as of June 30, 2018 and 2017, 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

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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. The endowment provided support for general operations of \$46,594 and \$44,319 in fiscal 2018 and 2017, respectively. Endowment also provided an additional regularly scheduled draw for unrestricted purposes of \$5,888 and \$3,394 in fiscal 2018 and 2017, 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 \$10,990 and \$2,048 at June 30, 2018 and 2017, respectively.

Endowment net asset composition by type of fund as of June 30, 2018	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	\$ 12,692	335,331	392,592	740,615
Funds functioning as endowment (Quasi)	193,979	—	—	193,979
Total funds at June 30, 2018	\$ 206,671	335,331	392,592	934,594

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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	\$ <u>194,491</u>	<u>311,729</u>	<u>377,131</u>	<u>883,351</u>

	2018			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at beginning of year	\$ 194,491	311,729	377,131	883,351
Investment return	15,841	60,276	1,712	77,829
New gifts	247	12	11,497	11,756
Amounts appropriated for expenditure	(9,249)	(37,345)	—	(46,594)
Total other changes and reclassifications	5,341	659	2,252	8,252
Net assets at end of year	\$ <u>206,671</u>	<u>335,331</u>	<u>392,592</u>	<u>934,594</u>

	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	\$ <u>194,491</u>	<u>311,729</u>	<u>377,131</u>	<u>883,351</u>

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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:

	<u>2018</u>	<u>2017</u>
Fair value of investments in pooled funds, net	\$ 934,188	882,933
Total number of units	48,414	47,345
Market value per unit	19.30	18.65

Total return on endowment and similar funds, consisting of realized and unrealized gains and losses, dividends and interest income, was 10.0% and 12.2% for the years ended June 30, 2018 and 2017, respectively.

(6) Land, Buildings and Equipment, Net

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

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 40,837	39,639
Buildings	519,538	511,760
Equipment and library books	102,549	99,778
Construction in progress	41,978	9,574
Total cost	704,902	660,751
Less accumulated depreciation	(263,524)	(249,476)
Total land, buildings and equipment, net	<u>\$ 441,378</u>	<u>411,275</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$14,624 and \$13,910, respectively. Outstanding commitments for construction contracts amounted to \$24,312 and \$18,496 at June 30, 2018 and 2017, respectively. Net capitalized interest was \$1,253 and \$398 for the years ended June 30, 2018 and 2017, respectively.

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(7) Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
New York State Dormitory Authority Issue:		
Series 1996, 6.00%, due July 1, 2021	\$ 5,510	6,700
Madison County Capital Resource Corporation:		
Tax-Exempt Revenue Bonds:		
Series 2010A, 4.92%, due July 1, 2040	29,425	30,445
Series 2012A, 4.69%, due July 1, 2033	20,890	22,375
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	107,594
Total long-term debt – principal	<u>321,049</u>	<u>324,744</u>
Bond premium and issuance costs, net	<u>16,649</u>	<u>17,477</u>
Total long-term debt, net	<u>\$ 337,698</u>	<u>342,221</u>

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 \$107,356 and \$140,038 and deposits with bond trustees of \$11,288 and \$11,158 at June 30, 2018 and 2017, respectively.

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

2019	\$ 3,895
2020	4,100
2021	4,625
2022	6,957
2023	7,289
2024–2052	<u>294,183</u>
Total principal payments	<u>\$ 321,049</u>

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

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amounts outstanding on the line as of June 30, 2018 and 2017. The terms of the line expire on March 1, 2019.

(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 \$7,755 and \$7,145 in 2018 and 2017, 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.

Information with respect to the plan is as follows:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 19,579	24,840
Service cost	491	535
Interest cost	695	662
Plan participants' contributions	569	517
Actuarial gain	(1,513)	(5,477)
Benefits paid	<u>(1,640)</u>	<u>(1,498)</u>
Benefit obligation at end of year	<u>18,181</u>	<u>19,579</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	1,071	981
Plan participants' contributions	569	517
Benefits paid	<u>(1,640)</u>	<u>(1,498)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status at June 30	\$ <u>18,181</u>	<u>19,579</u>

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(In thousands of dollars)

	<u>Unamortized prior service cost (credit)</u>	<u>Unamortized net loss (gain)</u>	<u>Amounts recognized in unrestricted net assets</u>
Balance as of June 30, 2016	\$ (9,524)	8,688	(836)
Amortization	1,180	(239)	941
Actuarial gain	—	(5,477)	(5,477)
	<hr/>	<hr/>	<hr/>
Total postretirement related charges other than net periodic benefit costs	1,180	(5,716)	(4,536)
	<hr/>	<hr/>	<hr/>
Balance as of June 30, 2017	(8,344)	2,972	(5,372)
Amortization	1,180	(146)	1,034
Actuarial gain	—	(1,513)	(1,513)
	<hr/>	<hr/>	<hr/>
Total postretirement related charges other than net periodic benefit costs	1,180	(1,659)	(479)
	<hr/>	<hr/>	<hr/>
Balance as of June 30, 2018	\$ <u>(7,164)</u>	<u>1,313</u>	<u>(5,851)</u>

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

	<u>2018</u>	<u>2017</u>
Net periodic benefit cost:		
Service cost	\$ 491	535
Interest cost	695	662
Amortization of:		
Actuarial net loss	146	239
Prior service cost	(1,180)	(1,180)
	<hr/>	<hr/>
Net periodic benefit cost	\$ <u>152</u>	<u>256</u>

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.

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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:

	2018	
	One percent point increase	One percent point decrease
Effect on total service and interest cost components	\$ 231	(181)
Effect on postretirement benefit obligation	2,578	(2,117)

	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)

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:	
2019	\$ 1,084
2020	1,085
2021	1,043
2022	1,094
2023	1,072
2024–2028	5,767

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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:

	<u>2018</u>	<u>2017</u>
Benefit obligations:		
Discount rate	4.01 %	3.65 %
Net periodic benefit cost:		
Discount rate	3.65	3.38
Healthcare cost trend rates:		
Pre-age 65 health care benefits	7.00	7.25
Post-age 65 health care benefits	6.00	6.25
Prescription drug coverage	10.25	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:

	<u>2018</u>		<u>2017</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Pledges receivable	\$ 937	—	3,984	—
Restricted for facilities	3,085	—	7,667	—
Restricted for operations	3,466	—	6,404	—
Annuities, deferred giving arrangements, and loan funds	16,788	11,185	16,902	10,056
Endowments:				
Financial aid	144,270	192,097	133,003	184,645
Endowed chairs and salaries	84,547	54,628	75,257	52,385
Instruction, facilities, library, and other	106,514	145,867	103,469	140,101
Total net assets	\$ <u>359,607</u>	<u>403,777</u>	<u>346,686</u>	<u>387,187</u>

(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 \$8,164 and \$9,132 at June 30, 2018 and 2017, respectively, all of which were made in accordance with the University's conflict of interest policy.

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(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:

	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 85,309	81,294
Payroll taxes and benefits	22,704	22,171
Total compensation	108,013	103,465
General operating expenses	28,443	26,189
Repairs, maintenance, and other contracted services	18,620	15,505
Depreciation expense	14,624	13,910
Travel and entertainment	9,524	9,283
Utilities	5,339	4,784
Cost of goods sold	2,477	2,956
Taxes, contributions, and insurance	3,650	3,311
Auxiliaries and expense	2,240	2,152
Interest and fees	12,621	10,048
Total operating expenses	<u>\$ 205,551</u>	<u>191,603</u>

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

(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 4, 2018 and subsequent events have been evaluated through that date.